Bryce Gilmore's

Trading With An EDGE

A complete trading seminar

By
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Suggestions on table of contents:

I highly recommend to you to create your own table of contents list of important pages you wish to refer to regularly.

To list everything in this book will provide no initial help to the user, read the book first from cover to cover at least twice.

Highlight the pages you think you need to remind yourself of regularly.

Read these pages at least once a week until you have committed them to memory.

If you do this you will find you will get the greatest gain from the valuable contents.

This text has been written more like a book than a technical manual, most of the examples were written in real time as the markets moved from day to day, the unexpected happened when the WTC was attacked. The author's personal style is reflected throughout and as he felt something necessary to emphasize it appears in the sequence.

Create a written trading plan:

When you have created a personal trading plan you can reference pages of this book to it.

Everyone should have a written trading plan accompanied by a list of known mistakes they have committed.

You will learn more about your strengths and weaknesses and be able to correct them far more easily this way.

All your trades need to be reviewed after they are concluded, you need to make comments to yourself on how you managed your trades and if you could have managed them better. No two trades are exactly the same yet over time they will fall into categories.

Trading for a living is work, you must work at it to be successful.

Good Luck, I shouldn't say that because it is up to you to create your own luck.

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Introduction:

I have been a full time trader in one form or another all my business life, some 21 years ago, I decided to try my hand at commodity futures trading.

To begin with I had my ups and downs, luckily I was up in the beginning so I persevered and decided to learn more about the business of trading leveraged markets.

My first experience with trading futures markets is probably similar to other business people who jump in the deep end and have a go, because it sounds exciting. When you are used to running a successful business and money is no object everyone else's business looks easy.

When I started I knew nothing about charts or technical analysis, only fundamentals. We had just been through a boom and bust in Gold and people around me kept telling me stories of how you could make a fortune trading the paper markets.

It all sounded too good to be true so I thought I will have a go. I probably made all the mistakes possible in the 1st 3 months and my broker loved me because I would make my margin calls on time and keep having a go. After 3 months I did my sums and arrived at the conclusion I was wasting my time. The only one making any money over time was my broker. I had made $26,000 in trading profits after losses and he had taken $24,000 of it in commission. At the time the commissions were enormous, I was paying $160 a round turn.

I decided to stop trading for a while and investigate some of the things I had seen when I visited the brokerage trading room. They had clerks in the office with charts and some computer equipment pumping out signals to buy and sell at certain levels.

I had never done any work on my trading decisions prior to that, all I had done is ring up the broker and ask him the price, he would give me his advice and I would either go his way or against him, depending how I felt from what I had read in the newspapers.

At times I just traded things that the broker recommended because I wanted the action, I would ring the night desk and get an update

and often reverse position if it was going against me. I never traded with a stop loss, there was no need I had plenty of money.

I would make a decision to trade on the drop of a hat, one night I was driving home and heard on the radio that King Hussein had been shot. First thing I did when I walked in the door was call the night desk, it was just before the open, and I told them to buy 2 silver on the open. I rang back 40 minutes later after the news was confirmed on the TV and silver was trading limit up. So I told him to sell them, he argued but did it and I was up $4000 in an hour. Silver traded down after that. At the time I thought I was a genius.

These were the things I used to do when I first started because I was a gambler in a way. I knew the casino odds, I was a good black jack player, I understood dice and I knew I could win, that was the important part of my makeup.

Now after 21 years in this business I have developed a completely different approach, I have done some hard miles, I have cursed at myself and others so many times over the years, for me or them, making obvious mistakes I can't remember.

I have seen the highs, I have seen some lows, I have had days where I made $30,000 and days where I lost $25,000, but overall this business has been very good to me. For that reason and that reason only I have been passing on knowledge I have learned in the "trenches" for years now. The money I receive from book sales and seminars goes a long way towards my acceptance of this business as a business. There are no free lunches they say. Someone has to pay the piper.

Now the purpose of this book is to lay a foundation for other people to follow who want to make a career out of trading.

Before you start you need to know certain things about the vehicles you intend to trade, they are not the "lottery" they look on the surface, and things have become so sophisticated over the years it almost takes a "university degree" in common sense to get your footing right from the start.

The business of trading leveraged markets is not easy, that is unless you make it easy or as easy as you can possibly make it.

You must know certain things to place yourself in a position of advantage. Then you must know how to conduct yourself. That is what this book is all about. Hope you enjoy it.

Bryce T. Gilmore, [C] 2001

Chapter 1:

Markets – Pure, Impure and Manipulated:

The first part in this exercise of understanding is to describe my thoughts on the various markets that you are likely to trade.
Reason being some are easier to trade than others. You might think all markets are the same but alas, you would be wrong.

Basically we have individual commodity futures markets, individual stocks, index futures, interest rate futures and currency rate futures.

In terms of PURE markets we have basic commodities which follow a trend to some degree with basic supply and demand factors:

Individual commodity futures, these could be:-
Soybeans, Wheat, Corn, Gold, Silver etc., and others similar.

Individual Stocks, these could be:-
Any volume traded market leader.

The most IMPURE futures to trade are index futures because they represent a basket of something, each of which could be in a different demand trend to the others.

Index Futures and Stock Index futures.

The most MANIPULATED futures to trade are futures subject to continued intervention by government agencies, these are:-

Currency Futures and Interest Rate Futures.

So before we start trading anything we need to learn the basic CHARACTERISTICS surrounding each futures contract.

Who are the players, who dominate those markets and why.

It is not that important which markets we trade, just so long as we understand the factors which influence the underlying supply and demand for each complex, factors that effect the psyche of the buyers and sellers.

Just in case I am confusing you at this stage I have traded them all and I know what I am talking about, I will explain as we move along.

Seasonal Produce & Individual Stocks

Seasonal Produce

Commodity contracts I call pure are the seasonal produce contracts, Soybeans, Wheat, Corn etc., These contracts have a specific use in life. They are the official hedging mechanism for the food chain and as a result are subject to supply and demand pressures year in year out. The commercial houses dominate these markets and the volumes and open interest are always good. They are very liquid markets and attract a lot of speculator interest, large hedge funds system trade these markets which gives them a certain degree of predictability at times.

The CBOT is still using open outcry pits to transact the business so there is no artificial manipulation from outside. This could change in the future a little with an online computer execution system.

The Soybeans for instance is a very stable market to trade, except in times of extreme volatility, the daily range is fairly predictable and the support and resistance from the past 3 days tends to be easily readable.

Although I don't often trade Wheat or Corn they tend to hold the same characteristics. The Soybean market tends to be technically readable in time cycles and price levels due to the abundance of traders in the market and the number using various technical techniques to initiate trades.

Soybeans is one of my favorite markets. Years ago it used to be Gold and Silver.

For the novice the Soybean, Wheat or Corn market would be a good stamping ground to cut your teeth on futures trading.

INDIVIDUAL STOCKS (Market Leaders)

Stocks that trade in high volume and have readily available information as to their state of health, earnings and future prospects are good prospects for the technical trader.
On occasions fundamental information will excite the speculators, but with a little foresight most times an entry into the stock before that eventuates is possible.
These stocks are dominated by the large players, so they always maintain liquidity. Any stock that trades continuous volume is normally a good trading vehicle because it will mostly trend upwards and downwards in an orderly fashion.

Stock Index Futures

ASX200 - Share Price Index 200

The Australian SPI200 futures index is a derivative of the ASX top 200 stocks. That means that the total capitalization of the 200 stocks are indexed to a value. The futures contract trades with a premium to or a discount against the ASX200 cash index.

The impurity of the index can be explained this way:-
Of the 200 stocks in the index the top ten account for just in excess of 50% of the total capitalization. The top 20 run about 66.7% of the total capitalization.
The ramifications of this are simple! 10 stocks rule the fate of the index direction.

Of these 10 stocks we have several market sectors, Media, Banking, Resources and Telecoms. The dominate stocks in the top 10 are NCP, NAB, CBA, BHP and TLS.
If you can work out the trends in these stocks you can give yourself an EDGE when it comes to predicting the overall index direction. The problems start when different sectors are trending in opposite directions as they cancel each others influence out of the equation.

Sector stocks tend to trend together so it is also an advantage to follow the trends in sectors and their weightings in the overall index. This requires a lot of extra work if you want to maintain control over your analysis.

Another thing to know about these top 10 is that 7 of them are traded on overseas markets, outside of the normal ASX business hours as ADR's on the NYSE, where they trade in US$. They create arbitrage opportunities for the big players and it is important to track the ADR's as a guide to the day to day direction they are moving in.

I have devised a method which makes it fairly easy to do this.

S&P500 USA

The same principles apply to the US top 500 in as much as sectors are important to track to gain an EDGE.

DOW JONES INDUSTRIAL AVERAGES - the top 30 US stocks.

NASDAQ Futures

Although I have not done a lot of work on this one it appears to me that the top 20 would be a good guide to the overall direction of this index.

Currency Futures & Interest Rates

Currency Futures

These can fall under the category of manipulated markets - they are manipulated in the respect that government agencies of different countries set policy agreements with each other to maintain a "broad band" valuation.

The Reserve Banks have the power to enter the markets anytime they like and take on all comers. This is why "events" in currency futures often cause "spike moves". So, if you are asleep and trading some trend following system you could get a few surprises from time to time.

The other thing that is helpful in currencies is to watch the % change in trading ranges to see if they are holding in a 5%-10% band as this will alert you to outside intervention by Reserve Banks.

When a currency is on a bull trend or bear trend it is usually being substantiated by fundamental analysis, so you need to study fundamentals to increase your chances of success.

One of the ways I see currencies as a viable trading vehicle is spreading one currency against another. That's the only way I will trade them these days.

Interest Rate Futures

These are not my bag but, the volumes are amongst the biggest of all futures contracts. You would be amazed how many traders are employed by banks all around the world to just sit at a desk all day and trade for 5 tics.

Basically as far as I can work out they trade the expectation of the next rate cut or increase and trends develop along the way. When the rates get into overbought or oversold territory they seem to react to price retracement levels quite well.

They are worth investigating if this type of thing turns you on.

Bottom Line:

Whatever you do before you do trade any market, at least do a discovery tour to find out what its major influences are. I am sure it will save you some heartbreak in the long run. Hidden meaning here is don't trade without the knowledge of what you are trading.

Chapter 2:

Who are the Markets?

This might sound like bad English but, I think it is a good question to ask yourself before you start to trade.

What are the futures markets all about?

My opinion is they are an inefficient financial system tool designed by idiots to accommodate the needs and desires of greedy people who can then try and move wealth from one level to another legally.

Now having said that I am open to critizism from all sides, nevertheless I can also say that since I feel this way I can work with them on my own terms.

When you have been around this industry for as long as I have and you have seen all the changes that have taken place because of bureaucratic bungling, bad exchange rules, shonky brokers, cheats, thieves and charlatans you can become a little jaded now and again.

Still, I am willing to take them on at their own game, you better be also if you want to be a professional trader.

Before you start trading you had better begin to think about all the pitfalls which can become major obstacles to your success.

Brokers:

The first obstacle you are going to encounter in this business is your broker.
Before you choose a broker you need to go out and interview them the same as you would expect if you were applying for a $150K a year job.

Your broker is going to be your biggest asset or your worst nightmare.

Only two requirements are important from a broker:-

1. **Ability to transact your business in the fashion you expect.**
2. **Reasonable transaction costs.**

If they can't provide either properly they are a dead end to your success. You might as well strap a lead weight around your neck and jump off the nearest bridge before you start. Save yourself the grief they will bring you if you don't have reasonable control over them.

After you get past the broker selection issue:
What do we find?

A market that.... trades up and down in ticks... ticks that have a value..... These ticks are real money.

You must never lose sight of the value of a "market tick", it is easy to bury your head in the sand, do so only if you are a masochist.

Each commission and each extra tick you lose on a transaction adds up to thousands of dollars over time.

Slippage:

There are times when you place an order "on stop" and the market is moving fast and your broker does not get your order in soon enough, so you get filled at a price that involves what is commonly referred to as slippage.

Whenever this happens you have to be prepared to argue with the broker and ask WHY?

The exchange records all transactions and they are known as "Time and Sales", you can always check back and see if your slippage was justified. If it wasn't then you must insist your broker make good the loss.

This is not as easy as it sounds because the broker works for commission and he will try and brush you off if he can.
Back years ago my partner and myself were trading a system for ourselves and numerous other clients of our brokers. The lots were about 26 at one broker and 18 at the other.
Often what would happen in the IMM currency markets the opening range would be moving fast. One set of orders were being worked by Wardley's and the other were being worked by Rudolf Wolfe, if a fill came through from one broker that was different to the other by more than 4 tick's I would complain.
Once the offending broker verified that the other had executed the fill they would make the fill good at the other brokers execution price. Now the only reason they did this was to keep the ongoing business. It didn't happen often enough to make you think "is my broker doing his job or am I getting shafted by someone in here", but it always crossed my mind.

Once one of the floor brokers holding orders for us in his deck walked out of the pit with 2 minutes to go on a Friday, the market dropped into the close on silver and closed limit down.

Wardley's filled the "stop" order 3 cents from limit down on 18 and Rudolf Wolfe left us holding 26 against a limit down close.

Now how do you think I felt when I saw the fills and the non-fills the next morning? it was Saturday and I couldn't raise a soul at the brokerage we were dealing through.

I hit the bloody roof and rang the principal at home and demanded he get the fill for us. In those days there was a 24 hour spot deferred silver market running out of New York so they were able to hedge the position and give us the fill without to much pain.

As it turned out the result turned in their favour but it could have always gone the other way.

Another time we had an order to sell 46 lumber on a stop to close and reverse short net 23, and the market ran the stop and the broker had a buy order there instead for some reason. That required him to place the order at a limit and we never placed orders at limit. It happened on a Friday as well and on Monday morning the broker rings me and tells me we have 69 long on a limit down in lumber.
I asked him what he was going to do with his 69 longs as we were short 23 on paper and the order was supported by a telex printout.

He then asked me what he should do? I said if I were you I would sell 138 and go net short 46 and see if you can get your money back as that was what our system had told us to do. :-))

Funny business this, and if you are not in control of your actions you will get shafted sooner or later.

The original question was – Who is the market?
The market is you, me, the brokers and everyone else who can make a mistake and blame it on someone else.

The Trading Pits:

Most of the financial markets have moved from open outcry to electronic computer execution. The S&P500 still trades by open outcry but at the same time the E-Mini trades electronically.

If you are following a live data feed for the S&P500 you will find it is about 30 seconds behind the E-Mini print in fast markets. This is because of the delay processing (hand punching) the executions coming from the floor into the system. The market can slip you a lot of points if you are relying on information before you place an order.

The grain markets at the CBOT are subject to the same problem in fast markets. If you don't have an order in the system you could miss getting a fill just watching the screen and then calling the broker with an order. This will change this year when electronic trading begins on mini contracts through the day.

Right now the only way to keep up with what is actually happening in the trading pit is to have a direct line to them or a radio voice feed telling you what is going on in there.

With all these obstacles in mind you have to evaluate "who is the market"

Buyers, Sellers & Traders:

These people are the market, no one else. They all have different reasons for placing buy and sell orders, half the time it would be anyone's guess why, except the trader has a high probability reason.

Yet we have ways and means to seek out this information to a relevant degree.

Our aim is to work out the bias between buyers and sellers to get an EDGE on the future direction of the market. That is how we can make some money, no other way.

If you aren't up to it quit now because it is work, trading the markets for a living is a job, you better want to do it and enjoy it, because that is what you are up against. Only people who enjoy the life keep trading, the longer they are in it the smarter they get. If you are not up to their level you are like a fish out of water.

The beautiful part of being a trader is that you don't have to trade when you don't want to. You can sit on the fence anytime you like, system technicians (won't call them traders) can't afford to do that because they are dealing with odds and odds are their only way.

Probabilities under certain circumstances are the trader's tools. You must learn to identify opportunities with a high probability of success to be a professional trader.

All those guys trading fixed system's, be they trend following, planetary, counter trend or what... are technicians, they are not traders, they are just buyers and sellers.

Professional traders are a world apart from everybody, they are discretionary traders, that is the reason why they take 90% of the available pool. They maintain a vision.... a focus, and act on it.

Chapter 3:

Preparations for Success:

Before you set out to become a professional trader you need to decide on a work ethic.

The largest single reason I have found why people don't succeed is because they are inherently lazy.

They have no focus, they want to do everything the easy way!

The majority of losers go into this business unprepared, sure they think they are prepared but then something happens that they have no control over and they buckle under the weight of it.

Brokers

Losers trade off other peoples opinion's, they think the broker is qualified to advise them. Brokers are salesman working for commission, they know nothing about the markets. Anyone who thinks they do is a fool to say the least.

News Services

Another fallacy is that news services know where the market will trade today. Let's hit that idea on the head before we go any further.

News services only report what they hear from others, they are not qualified to give trading advice, 90% of them are "still wet behind the ears" and their claim to fame lasts about 5 minutes at the most.

Nevertheless, to be informed is to be pre-armed. It is necessary to follow a good news service to keep yourself informed of the fundamentals and the current psychic euphoria or despair that is prevalent in the day to day fluctuations of the market.

The news service I have been watching for the past 5 years or so is BLOOMBERG, I take it on cable and it runs in my office non-stop day in day out.

I have got to the stage where I can just about tell you what they are going to say about the current market before they do.

Just the same they do provide a good information service in as much as they are continually interviewing traders, analysts, CEO's and important people who have a say in the affairs of this world.

They are diggers, as in they keep digging out information. They are always flashing spot news on different issues across the bottom of the screen.

If you watch enough of it, it gets you in tune with the real world, that is why I watch it, not for any other reason.

As time passes you can visually see how trends develop in certain markets. Especially the stock markets.

Special Events

News services alert you to special events that occur which could shift opinion in the current market trend. They often pre-empt you to news that is to be released into a market. To be informed is paramount in this business of speculation.

Many times I have been neglecting a complex for a while and then all of a sudden the news service will say something that alerts me to opportunity. From there I go and look at my charts and do some analysis to see if it could mean something.

I don't recall how many times the most simple things the news services report have alerted me to opportunity, but they have been plentiful.

Keeping a cool head

You may have to train yourself to keep a cool head when everyone around you is losing their's. But you should never take anyone else's word for something till you double check it. More money than enough gets lost in the market for this simple reason.

Bottom Line

You need to follow a news service and stay informed to be and stay a professional trader.

Personal Office Environment

Now the next most important thing you need to be a trader is a private place to keep your tools, get some seclusion and stay uninterrupted from others who don't understand what you are trying to do, and very few people do, believe me.

The wives will hate me for this but it is true, you guys can wreck the best-laid plans of mice and men. You should not be allowed to come anywhere near us when we are trading.

You should not take any interest in what we do unless you want to help. If you want to help understand that we don't need your advice, if we do we will ask for it.

How many times in past years I can remember the drama's, I had a wife who would walk into my office and say stupid things like "when are you coming to bed", "if you want to stay up all night you won't be any good when we have to go out to Anna's party tomorrow night", " You will never be able to get up in the morning to drop Shannon at school". Stuff like that. Well I would just say, "will you get out of here! I'm busy, you are only distracting me".

So you know it never helped anything. My best years trading, when I was married, was when we had two houses, she lived in one and I lived in the other. She didn't know what I was up to and I didn't care much when I was working anyway. When we were together I gave her my undivided attention. Maybe the answer is to have an office somewhere else, but it was difficult for me because I live on the other side of the world to the markets I was trading.

Then there is the other way they have of getting to you, you could be having an indifferent day and they come along and ask you, "How much money have you made today?"

Well before you start trading from home you had better get this lot sorted out. You have to set the ground rules and make sure you apply them.

Once you get any friction between you and your partner it will affect your judgement and you will lose money. Don't trade when your mind is not on the job.

I have seen too many marriages break up because of these problems; it has probably got to be your primary concern before you set out on the journey to become a professional trader. Either that or never get married, which is probably the best advice I could give you.

My biggest problem with wives was because they were jealous of my work and the time it consumed. They couldn't understand that I like what I do and have my own private love affair with it. If I trade well I know I am in charge of my own destiny, when I fuck up I know I have to get myself under control again, it's like walking a tight rope.

Working for yourself, by yourself is a very serious situation to place yourself in. You can either do it with ease or you can make it impossible. The choice is yours.

Market Information (prices)

Every professional trader has to have market information, i.e., you have to know where the market is trading. If you are smart you will want to know where it is trading every minute that the market is open.

This means you will require a LIVE data feed.

There are numerous sources for LIVE PRICES. The "no" frills services are inexpensive and can be connected to over the intranet.

For the CBOT you can use the Dow Jones Financial Network and subscribe through the CBOT (Chicago Board of Trade) for $9.95 a month.

For the stock market information Quote Com Live Charts can be run cheaply or you can use their Qcharts service for $79.95 pm. If you want data live you will have to pay exchange fees on top of your data feed service. Qcharts has a unique EXPORT DATA feature that I use to import intraday data into my WaveTrader software, this allows me a very fast way to do my measurements of price as the market moves along. It is very important that you keep accurate note of where the market is technically when you are trading.

There are also an abundance of free services – these usually have a 10 to 20 minute delay. They are handy for researching information on complexes where you don't receive a live feed. Future Source is the one I like.

On my website I have links to most of the free services and also links to information pages that I regularly refer to.

http://www. Bryce-gilmore.com

These are on my BULLETIN PAGE.

For Australian Stocks and futures I use BOURSE DATA for my live feed.

END OF DAY DATA
You will find it necessary to maintain a database of long term prices for major stocks, stock indices, futures contracts and currencies if you wish to conduct long-term Time and Price analysis.

Contracts need to be maintained in various configurations to be useful for certain types of analysis.

Australian stocks, Indices, Futures markets and some overseas are available from ALMAX INFORMATION SERVICES. Overseas futures are best from services like CSI or GENISIS in the USA.

CORRECT DATA is the lifeline to your business; all of the above services have intranet delivery services so the costs involved are minimal to your overhead costs.

Analysis Software

There are many products on the market, you can have End of Day software and still trade effectively if you wish to keep the costs down.

If you are serious you will set yourself up with an ON LINE ANALYSIS PACKAGE and then you can use the routines in all levels of time frame, eg. 1 minute, 5 minute, 10 minute, 15 minute, 30 minute, 60 minute and Daily, Weekly and Monthly.

The more sophisticated you wish to be the more money you will have to spend.

For end of day analysis I have been using my own software package – WAVETRADER/CYCLETRADER since I first developed it in 1986. Unfortunately the code still runs on a Dos™ platform and requires keyboard driven commands for operation, it runs fine out of the windows desktop and does everything I wish to do. Hence I have never bothered to upgrade it to a windows based environment.

Some popular online packages are QCHARTS, AGET, FUTURES SOURCE and CQG you can get these to run on a satellite dish system and avoid the pitfalls that sometimes occur with an intranet connection.

You should do your own research in these areas and decide which systems fit your budget. Nevertheless as long as you have instant information coming in on the contracts or stocks that you are trading you will survive OK.

SUMMARY

A professional trader needs to set himself up with all the tools necessary to stay informed of the actual market position, the technical position of the market and know roughly what the fundamentals influencing the market are.

Chapter 4:

Tools of the Trade:

Professional traders must have tools to work with, if you intend to buy and sell things you need to research the reasons why. Now that's pretty obvious to anyone. So why do so many people think they are going to make money just because they hear someone on a TV financial program recommend a stock or a commodity?

This is the major reason why markets trade outside their fair value envelope and place themselves in completely over or under valued situations.

The bigger fool theory – so long as you can find a bigger fool to buy your position at a profit you are going to make money.

That's the theory I work with anyway. Basically all you have to do is find something that is cheap and buy it, or find something that is over priced and sell it. If it is trading at fair value you just leave it alone. Simple.

So that leaves only one thing to do, research.

Fundamentals V's Technical Analysis

I believe you need to use both methodologies; hundreds of technical analysts are walking around with the arse out of their pants because they never believed in fundamentals.

Let me tell you a story about one in particular. I love this story.

Back in 1986 a newspaper in Melbourne my hometown, used to feature a few stories on technically oriented people, one was the CEO of Solo Petroleum a publicly listed company, this guy was an Elliott Wave guru or so the papers and he thought. He had been reasonably successful trading the bull market in stocks between 1982 and 1986, but you should never get brains confused with a bull market. In 1986 the market made what is now considered a 3rd wave high or a 5th wave high if you allow for extensions. The Australian $ went into a state of collapse due to a Politicians statement that Australia was in danger of becoming a "banana republic". Through a period of about a month and a half both the stock market and the A$ were in a decline.

While all this was going on Sykes (the CEO) liquidated all the company's investments and went heavily short the futures markets.

He was continually reported in the newspapers with his charts and opinion that the market was doomed. He was the soothsayer of the local technical world and gathered a huge following.

On the 28th July 1986 both the A$ and the stock market bottomed. It was pretty easy to recognise and all the fundamentals told us that it was not the end of the financial markets at all.

The previous high in the All Ordinaries Index had been 1247 and the low was 1094, not a real big issue. As the market began to rise in an orderly manner Sykes was continually reported as the bear amongst bears and in the face of continual evidence that the market was not going to freefall he stuck to his technical opinion that it would. As a little more time passed and the market went to a new high Sykes was reported as still holding short. You would have thought he would have given up and taken his losses and got back on with the job. But no Sykes had convinced himself this new high was a "bull trap".

Next thing I read in the papers is that Sykes has called an annual general meeting of shareholders of Solo Petroleum to vote on the futures positions the company was holding. By the time of the meeting the market was trading around 1400 and Sykes had put on more short positions. The shareholders got to vote and elected to stay with Sykes' opinion, saying we have come this far with you we will stay till the end. They were told that if the All Ordinaries traded above 1500 they would lose everything; admittedly at that time they were underwater for half the company's assets.

Well as if you didn't know the market continued to climb and sent Sykes and the Solo Company broke. The market continued to climb and eventually reached a high of 2312 before the crash of 1987.

On the day of the crash Sykes was pictured in the paper standing outside the Melbourne Stock Exchange. In an interview later in his 1 bedroom flat above an old disused gas station, the walls were plastered with charts with Elliott Wave Counts all over them. Sykes said, "I told you the market would crash and it is going to go down even more". Of course it didn't and we all know what it has done since.

The sad part about this story is not only did Sykes ruin his life he also made a complete fool of himself. And since 1987 every time the share market goes into a sharp decline the newspapers run around looking for him so they can take a picture of him outside the stock exchange. The last time I saw an interview with him was in October 1997 when the market fell out of bed for 3 weeks.

So the moral to this story is: -
Don't just use technical analysis to make your trading decisions, use both technical and fundamental evidence to support your view of the market.

If Sykes had looked around him and saw that everything was normal it would have been impossible to hold the view that sent him broke. Trouble with him was he got in so deep he just kept digging.

Fundamentals

I don't need to try and describe these to you at length because you can learn all you like by watching the BLOOMBERG or looking up the facts on the intranet.

Technical Analysis

Now technical analysis is a more complex subject and I don't intend to rewrite everything I know about that in this book, as I already have done that in my previous manual Dynamic Time and Price Analysis of Market Trends [C] 1998 Bryce T. Gilmore.

But there are 4 things we need to observe about the technical aspects of a stock or futures contract we are intending to trade in.

These come under the headings: -
Pattern – Trend - Price - Time

Using these tools we can determine direction, support, resistance, overbought and oversold.

Once we establish some parameters we can then inspect things like commitments of traders reports, open interest levels, crop conditions, stock carry overs, expected usage.

For stocks we can determine the PE ratios, previous earnings, expected earnings, dividends paid and the future prospects of the company.

When all is said and done we have a lot of ground to cover if we want to stay ahead of the game. But the work is necessary if you want to be successful.

If you don't want to do the work then the best thing to do is invest your money in a fund or multiple funds with a proven track record. Reason being they will do all the work for you and you can go and play golf every day.

Charts

Charts are the main tools used by the technical analyst.

A chart gives a descriptive picture of the price activity over time; the data can be manipulated to produce technical indicators that explain the trend position. The market swing highs and lows can be measured for price and time duration between them to establish the existing price and time cycles. The future is only a repetition of the past in some way so all these approaches prepare you for the future.

The thing about charts is they mean a lot of different things to a lot of different people. Learning how to read a chart takes time but it also takes time to become a doctor of medicine.

Charts are the most descriptive tools we have, to be a professional trader it is almost mandatory today that you learn how to read them.

When the opening bell rings at the exchange the professional traders have the current support and resistance levels of the market indelibly imprinted in their minds and they will buy and sell at those levels while they hold and move on to the next one if they don't.

Traders are predictable; they work from support to support, resistance to resistance probing for stops as they go. Once you know their habits you know how to trade because all they are doing is taking money from the careless and uninitiated.

Occasionally markets get into long trends and keep moving in the same direction, you can tell the strength of the trend by the way the daily ranges trade. It all comes down to knowing what the traders in the market are doing to know what the future holds.

Most traders have a very short time horizon so to take full advantage of their behaviour we need to study short-term charts, by this I mean charts in shorter time intervals. The 2-minute, 5 minute, 15 minute, 60-minute charts provide all the information you need to trade. The daily charts reveal all the information you need to know to understand the position of the system traders.

If you know what you are looking for it is easy. When it doesn't appear easy you don't trade. Simple.

The professional traders best opportunity to profit is when he can recognise situations that have everything in their favour.
Why trade when you don't need to, that's hard work. Why not wait for the opportunity when the risk is diminished and then you can trade with a minimum of risk.

The whole secret to making money from the market is taking advantage of opportunities. Learn to recognise them, if they don't exist just sit on the fence and research.
If you can develop the patience to do this you will make heaps. As soon as you start shooting off the hip you will end up underwater.

Chapter 5:

Market Mechanics:

The primary most important asset for the professional trader is his understanding of market mechanics.

It can take months for the average novice trader to understand the street sense that prevails in the markets. Most newcomers never get to appreciate the experience because they are long gone before they realise that trading is common sense, nothing more.

There are so many "mad professors" out there that attempt to invent foolproof trading systems it is unbelievable. They curve fit past data to work out the odds of buying and selling when some proprietory algorithm they have dreamt up repeats the "set up" that produced profitable trades in the past.

Commodity trading systems and horse racing betting systems fail because of volatility, the market is never running in a consistent way month in month out. Sure it may do it for 3 or 4 months and then everything looks like it is a licence to print money. When you put these systems to the test the "Eldorado" anticipated usually turns into fools gold.

System operator's work on the pretence that the market will "trend" at minimum 30% of the time. If it does they can curve the data to their algorithms to project a winning scenario. The truth is you can "curve fit" any price series to a winning scenario by manipulating the drawdown parameters.
System developers sell their scenario to the public instead of trading it themselves.
The public love this stuff mainly because we have trading magazines devoted to promoting the easy way to riches – "trade the new amazing, never seen before S&P500 "**$$$$$** Cash Grabber", hypothetical trading results in 1998/9 $1,200, 350 profit on 1 contract, price $1999. Only 50 available!"
Geezes; people jump out of the bushes to get hold of this stuff. Boy! could I tell you stories I have heard about people trading systems. Most of them are funny but sad stories.

I have seen some sophisticated systems last for 15 years or more with several lean years in between but, in the end they all fall prey to the market mechanics. Or the people using them can't maintain the discipline required to trade the system and stop trading it. Reason is continuous losses, just before the system gets on a run.

It takes a very special skill to trade a system and be successful, I'm not saying there aren't systems that work, only that they are rare. How do I know? Well I actually traded a sophisticated system with the discipline required for nearly 4 years. It was wonderful sometimes but in the end when I wasn't trading it, and my ex-partner was, it blew up like a land mine during the 1987 crash.
The reason I was more successful was because I used to trade my system on the system, i.e., I used a scaling system on the system. My partner couldn't stand it, that's why we fell out. Once after a huge profit run over a month or two the system was in profit $70,000 a unit, I had 2 and my partner had 2. At lunch one day I told him I was closing out, he said you can't do that, what will the others we manage the system for think of us?
I said, "OK I will tell them", he said no, he had a better idea he would buy out 1½ of my units, I agreed and he paid me the money. He continued on with 3½ units from that point, I had only ½ a unit, now how stupid was he to enter the system at that level?

Anyway that wasn't the end of it because the system kept making money for another 2 weeks, about another $20,000 a unit. At that stage the positions in 6 different commodities were extremely overbought. I kept telling him to quit and he kept laughing at me for missing out. It really put a huge strain on the relationship.

Then the tide turned and the system started losing, it's prior track record was never to lose more than 50% / $25,000 of its original staking plan of $50,000. Eventually over a short period of 2 months it lost $55,000 a unit before turning the corner. So he lost 3½ times $55K = $192.5K from winning his $210K – Net result after losses +$17.5K, I had won $155K and given back $27.5K, my net +$127.5K. In the 5 months or so my share of commissions from the brokers we were trading the system for was also about $35K.

The real problems began when I re-entered the system with a new unit just after it turned the corner and then bailed again when I got $20K ahead, which took only about a month. I did that several times over the next year while I was working on my Wave Trader software and then quit the system to trade my own discretionary approach. When I quit so did 80% of the brokers clients, I threw away a commission income of at least $4000 a month just because I had principles, but my ex-partner kept trading it for those left in. It had another big run and then a decline and all but 1 client and my ex-partner were left trading it.

Then the system hit a brick wall in the crash of 1987 and lost $65K a unit in 2 days. So I know all about systems, believe me.

The craziest systems I have seen in my 20 odd years in this business are the "Planetary Movement" systems. Now these guys are unbelievable, they don't even have a clue how to trade yet they manage to sell their "pie in the sky" systems to the gullible public. They make heaps without ever risking a penny in the market. Some of the buy sell signals can be 4 years apart. Now I ask you how does that system know if that market will be even open in 4 years time?

MARKET TRENDS

Markets usually trend approximately 30% of the time, over time.

Now that does not mean they will trend regularly, only that the mean is around 30%. They could trend for 50% of the time over a given period and then go choppy for twice the time.

The market does not give guarantees.

MARKET MECHANICS

A professional trader needs to understand market mechanics so that he knows how to expect the market to flow.

All markets go through periods of inactivity followed by periods of medium or extreme activity and then most likely back to inactivity.

Knowing the reasons for the activity is paramount to your success as a trader.

In short-term periods of 2 to 4 days a market will gravitate around a balance point when it is in a state of inactivity or medium activity. In extreme periods of activity a market will move in one direction or the other with very minor corrections during the same time frame or extended time frames. In a protracted trend the market will never correct for more than a day or two before advancing again, if it does correct for more than 2 days you know you have reached the balance point of the trend at that time.

Usually the 2 or 3 day thrust periods of activity are followed by corrections to the prior movement, back to what I call a balanced level. This is usually in the ballpark of 50% (38-62%) of the advance or decline, having done that they will attempt to test the prior high or low of the thrust and move on to a new level.

When markets fail on a test of a breakout they normal come back to the balance point again. If they don't and then break out they prove their strength and are safe to trade in the new thrust. If they come back below the balance point they are said to be in a weak position and a change in trend is likely.

I.e., they will start thrusting for new levels in the opposite direction. Each day they break the prior days extreme point they are trending.

You can take this analogy and apply it to all time periods if you want to, but for the purposes of trading we only have to capture the short-term movements to make money.

STOPS

All markets have standing orders sitting in the wings; they may be to buy or to sell depending which way the market is breaking out of the previous 2-3-5-10 day range.

These stops belong to people either protecting a position or initiating a new position.

The market seems to have knowledge of where these stops are and will often move just enough to take them out and cause a small bush fire until the stop orders are exhausted, then move back to the balance point of the day or prior day.

In times of extreme volatility when a market has run hard in one direction for several or more days the market will exhaust all the new buyers or sellers to the point that there will be no one left to support the new price level. When this happens the reaction is just as severe as the thrust as price moves back to their balance point.

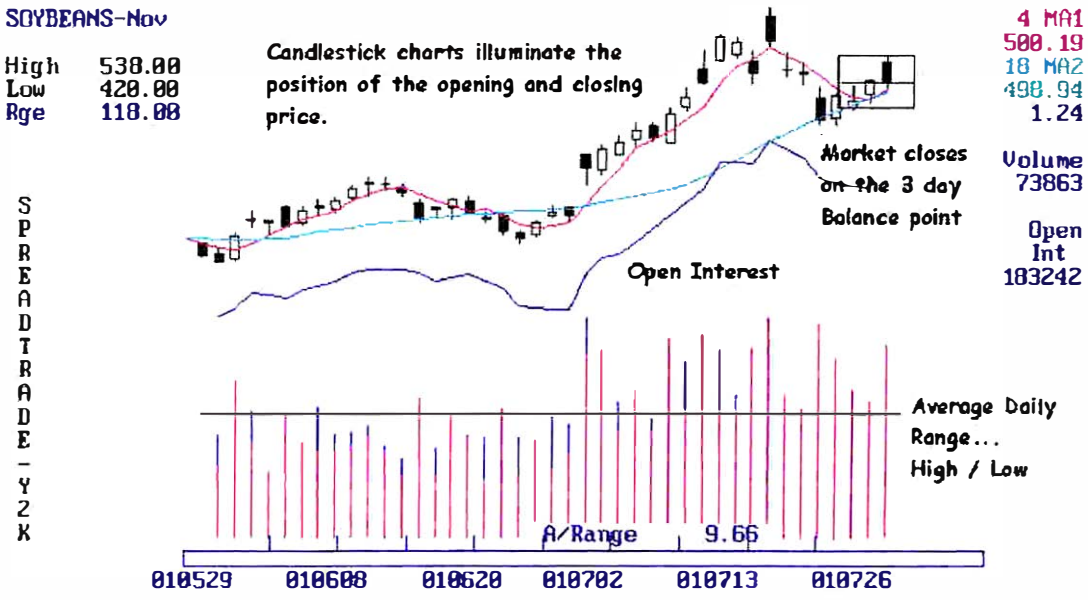
TRENDS DEVELOP BECAUSE

Trends develop because there are more buyers than sellers or more sellers than buyers. And price will move in that direction until a balance point is reached.

Usually the balance point will be exceeded until the market will not facilitate trade, then the trend will reverse. The dimension of the reversal will depend on how many people are caught at the new levels and start losing money as the market reverses. The more of them the faster and stronger will be the reversal and of course the balance point will be over-run in the opposite direction causing the same thing to happen again in reverse.

MARKET FACILITATION

Is just a fancy expression for the balance between buyers and seller's. Some online systems even have a market facilitation index to guide you mechanically. The theory is that as the tick volume moves up or down you can tell if the market is facilitating trade.



BALANCE POINT

What is the balance point I am talking about?

Well the balance point is the price that will facilitate trade, i.e., the price where buyers and sellers are evenly matched.

OPEN INTEREST

Open Interest tells you the changes in activity of the main players in the market. On any given day there will be more activity from day traders than longer term holders but changes in open interest are reportable and leave a clue to the strong hands and their objectives.

THE OPENING PRICE

Often referred to as the best kept secret by professional traders.

The opening price sets the "tone" for the day.

a) **50% of the time the opening price will be the high or low for the day.**
b) **The opening price becomes the daily comfort zone for traders.**
c) **Traders will buy and sell off the price movement surrounding the opening price.**

I will illustrate the trades possible using this information in another section.

AVERAGE DAILY RANGE

Most markets in an average state of activity develop a tendency to trade in an average range. I.E., The daily high/low range of most days will be the same around 50% of the time.

Soybeans for instance is around 8 cents or $400 a contract, SPI200 is 30 points or A$750 a contract.

The two points to consider are these: -

a) **Is the current daily range inside the average range?**
b) **Is the current daily range outside the average range?**

A professional trader should be aware of the average daily range for any commodity contract he trades, this way you will not be putting trades on when you are outside the envelope unless you are sure of what you are doing.

The average daily range also indicates to you when the market is building up energy for a sharp move. The more days a market trades in a tight range with small daily ranges it is said to be coiling.

Basically it means it is compressing like a spring. When it does so stop orders accumulate on either side of the future breakout points, once the orders are hit the market will run like a hare for a little bit.

SUMMARY

Now if you can understand what I have told you in this chapter you are half way there to becoming a successful trader.

I say only half way because you still have to know how to execute trades with the minimum of risk when the opportunity arises.

RISK management is the single most important part of being a successful trader. I have seen good traders make money week in week out for long periods, and then all of a sudden take a biased view of what the market will do and hold a position against all odds expecting it to come back. I have even been guilty my self, my saviour has only been that I have a rule never to hold a position at the close if the trade is in a losing position, no matter what the cost, I have to "eat" it because if I don't I will not sleep at night. Even the next day if it would have come back I can live with it because the odds are 50/50 and I know the worst usually happens when you start hoping. I will talk more on this later.

I take the view that if you enter a trade, for whatever reason, it will start going in your favour very quickly – otherwise you are wrong taking the trade and should get out quickly.

Chapter 6:

Psychology of Trading:

Before you can become an accomplished trader you need to understand what the markets are all about.

Buyers and Sellers are made up of some strange individuals you can bank on that for sure. The entry fee is only dollars in their account, as you know, anyone with money can trade. It is an open playing field.

We have trade buyers and sellers, fund buyers and sellers, broker buyer and sellers, public buyers and sellers, system buyers and sellers and just plain opportunistic, speculative buyers and sellers, not to mention the floor traders who scalp the market moves day by day.

These combined buyers and sellers all have specific TIME HORIZONS for their individual methodologies.

Most of them have one thing in common; they use technical methods of some description to help them with their TRADE SELECTION PROCESS. That is, until they get caught around the wrong way, and then they are likely to do anything.

THE TRADE:
The trade buyers and sellers were the reason the futures markets were established in the first place. As a hedging mechanism for people to be able to buy forward or sell forward at an established price.

This part of the business today is not really the main use the futures markets are put to.

In fact the futures markets have become a gambling arena for speculative traders.

GAMBLERS HAVE SYSTEMATIC WAYS:
For this reason they become predictable to a certain degree.
Markets can trade way out of the envelope that Economists would call fair value.
That is a human trait and has nothing to do with reason.

UNDERLYING FUNDAMENTALS:
Beneath the surface of any market there lies a "fair value" bottom line. If it is exceeded by too much then the rational players will buy or sell more than enough to over amplify the adjustment.

THE PLAYERS:

All but the "dumb" public and broker directed buyers and sellers have a systematic approach to trading.

They either buy or sell because the price levels suit their purpose or they buy and sell because the trend or congestion phases fit their systems.

Once you realize this you can either play their game or fuck their day.

It all comes back to the weight of money either going in one direction or the other to how the price will fluctuate.

There is no simple answer to what they will be doing on one day to the next unless you can read a chart of what they have been doing in the previous nearby periods, as well as the recent longer-term periods.

If you want to be successful you learn how to be a trader, you stay flexible and you adjust with each new piece of information you get presented on an intra-day to day basis.

If you get a fixed view and hold it against the prevailing trend you will get run over by a "steam roller".

What can I say, the old expression that comes to mind is, and "You don't need to have a long neck to be a goose".

THE ANSWER:
You have to learn to trade with close stops, you have to learn how to enter and exit a position and you have to learn where opportunity presents itself.
If you don't you might as well forget it.

Opportunity presents itself in many different ways, learning the techniques to recognize them take time. When you have learnt then the markets are easy to trade. Until that time comes they may seem a mystery.

Trading Markets for a living is all about opportunity

If it was about anything else the markets might as well be fixed. And they can be fixed in a way because the smart get smarter and the "dumb" disappear to be replaced by "more dumb".

The brokers are the best helpers in this regard; at least they serve some purpose. You know every time someone has a good run or stands out as a good trader they want to promote you to do seminars for them so they can sell more commission. They have ways and methods of attracting new players to the market; they are unbelievable entrepreneurs because the game goes on. 90% of players who enter the market place lose their money and disappear never to be seen again.

But the game goes on. Amazing business when you think about it. A pool of money just sitting around waiting for someone to pick it up. Sometimes it can feel like you have a money tree growing in your back yard if you know what you want to do and have the discipline to control your emotions.

THE only rule you need to learn to become a money tree picker is to control LOSSES.

If you can do that you have every chance of becoming a winner.

You look for opportunity and give it a go. If it doesn't work you wait for the next opportunity.

Problem with losers is they make a decision and no matter what happens they stick to that decision and watch their money go elsewhere. Sad isn't it when you are getting their money.

Well I don't have a conscience about any money I take from the market because I don't have to console them, that's the brokers job and he doesn't give a shit anyway.

In fact they are not even faces to me, I see them as a pool of people that give me opportunity, if they were not there I would not be able to do business.

So you can see from what I am saying, I don't care where the profits come from as long as the opportunity is there to retrieve any losses I may make. Because losses are always a part of this business.

This whole business of trading leveraged markets is a game of probabilities.

Until you realize that is all it is about then you will never learn to control your losses.

Read all the books under the Sun on trading and they will tell you the same thing.

Buy systems from people who don't know how to trade, be they professor's of Mathematics, computer genius's or planetary guru's the story is the same. Systems are designed around a loss probability on any one trade or in their case a series of trades.

So the best system is "Know your probabilities and know how to control the losses when they don't work".

This takes human ingenuity; no computer will ever figure it out, not like the human brain will anyway.

DISCRETIONARY TRADING:
If the market demands you to be successful at choosing the right probabilities then it must also dictate that you be successful at determining your risk when you are wrong. To just select some arbitrary curve fitted calculation is insanity.

IF YOU ARE RIGHT:
On any trade that you take, if you take it at the point of least risk, you will be right or wrong immediately. If you accept that fact you can control risk. If you are just taking a guess and you want to give the market room then you are taking a chance, the difference between chance and defined risk is a lot. Over time the chances that fail will kill you.

I am amazed sometimes when I hear from people who took a trade and it went into profit for a day and three days later they are holding the same position at a loss. I just say well you must have plenty of money for all of us, why not just post us a check.

BOTTOM LINE IS:
You must have a trading plan that is based on successful probabilities, signals to buy or sell that have worked in the past better than 50%, 70% is better but even 35% would make you money if you controlled risk.

You must have a plan of where you are going with each trade you make, i.e., you must know what you will do to capture any profits you may reap. Foremost you must have a way out if you are wrong.

HAVE A PLAN AND EXECUTE THAT PLAN FLAWLESSLY:
These are the words of an expert; Mark Douglas.

HAVE RULES TO FOLLOW:
Have a set of rules to follow, as soon as you begin breaking your own rules, realize you are out of control and stop trading.

WATCH YOUR EGO:
If you are having a good run make sure you continue to do your daily work and continue to reappraise your opinion every day, don't fall in love with a position it will end up in a divorce.

You must manage every position every day you are in the market.

If you don't you will fall prey to the guys who do the work.

I could go on all day and tell you the mistakes one can make but it would be useless, you have to make them to understand. As long as you maintain a tight stoploss policy they will never occur in a big way.

DON'T GET INTO CONTESTS
Don't ever try and prove to anyone that you know more than them about the markets, if you do know more then it will become apparent from the way you handle yourself anyway.

The mind is a funny thing, you can be going along fine and then something happens to upset your equilibrium, you start doing irrational things, you feel you have a point to prove. WRONG, you don't have to prove anything to anybody and as far as you should be concerned they don't have to prove anything to you.

Unless they are holding the opposite position to you and you hold the contract note there is no point getting involved with their position, let them work it out as best they can.

There is no place in this business for taking prisoners, if people want to learn, try and teach them, if they think they know it all let them swim in their own pool.

At all times do your own thing and forget about other people. This is an individual business. If you don't you will become confused with your own objectives and cause yourself injury.

Chapter 7:

Money now, later or never:

The first thing you need to decide before you get involved in this business is why are you in it in the first place or why you are going to get in it?

There is only one reason in my mind to bother with this business in the first place and that is because it is a money business and it allows and provides unlimited opportunity.

If you think anything else you don't need to have anything to do with it, i.e., unless you want to work in a job for someone who earns from the fringe. Not a bad idea if you don't have the smarts to beat the system.

From what I have explained so far, I think to reasonably prepare yourself for the occupation of speculation you need to think about how you can play the game with an edge.

To maintain an edge you need to be selective, you don't have to trade all the time, you can look at several different markets and make your own executive decisions when you wish to trade them.

The tools I employ allow me to come and go in all types of markets. I don't have to trade any one stock or commodity all the time to prove anything to anyone.

I don't care what the markets are doing when I am not involved. I only care when I see opportunity. I might argue the point with colleagues when I am closely involved about views, yet when that phase is over I don't care less what any market does.

MY VIEW IS:

Trade only markets where you can identify opportunity.

ONLY TRADE WHEN:

Everything is in your favour.

LISTEN TO NO ONE:

Make your own trading decisions. Listening to advice to lead you is fine as long as you can distinguish the ant hill from the ants.

USE ALL THE TOOLS AVAILABLE ALL THE TIME:

Work on sourcing out possible "odds on trades" in a variety of markets when they are presenting themselves.

DON'T FALL IN LOVE WITH ANY ONE MARKET:

Don't do it, understand that any market can confuse you from time to time, look for the easy "set ups" and don't try and be a hero.

GO WITH THE ODDS:

If you want to be a speculator you need to understand that is what you are, just work on being one.

MAKE THE TRADE:

Make the trade and run with the money if you are correct, don't concern yourself with anything you left on the table. If you get a bad start get out quick.

DON'T REGRET:

Don't ever say to yourself well if I had done this or that I could have made a lot more.

PLAN YOUR ATTACKS:

Do your research and plan out each attack you are going to make.

Why do you guys ever think I am happy just to go and play golf 3 days a week? I don't care less what the markets do when I am playing golf. I don't care what the markets are doing when I am on holidays, I don't really care what the markets are doing most of the time unless I have a position.

I have no vested interest in why any market will do whatever it does.

I am only interested in reading the tape and observing the players, using my knowledge to see if I can predict their next move, if I can I can profit. When I get out I couldn't care what the market does.

Any long-term opinion I have is just that "an opinion", I don't have a crystal ball and I don't know what will happen in the future, I might get it right a lot of the time because of my tools and experience, but that is purely conjecture, it will not put dollars in my pocket unless I have a position.

So why worry about it.

Life's too short to worry about it.

If you want to make money out of the commodity futures business you have to be a MECHANIC and use your tools when they have the greatest chance of success. To do anything else is insanity.

In my opinion you have to learn to think like a trader, treat the markets as a casino. When you are sitting down to play you use all your skills to place the bets. You use all your skills to limit the losses. You use all your skills to take their money and put it in your pocket.

When it is over it is over, you never go home from the casino and say to yourself they have spun three zero's in the next 10 spins after you lost your last bet betting on zero for the previous 10 spins.

Wake up to what this business of speculation is all about before you start, that is the only way you can become, be and stay a winner.

There is no place in this business for GREED and of course FEAR.

BEFORE YOU START:

You must have a clear plan, either that plan agrees with everything you are going to do in the future or it doesn't.

You better be sure beforehand otherwise you will find yourself in situations you have no control over.

Trying to re-work a trading plan in midstream is not an option; it ruins the odds of probability.

You must have your probabilities well worked out in advance and just play those odds. If they don't work out at the time you walk quickly. There is no other choice.

The guru's and pseudo guru's of this world can tell you whatever they like, I don't care, you will lose if you don't have a clear plan before you go investing your 1st dollar.

Trading futures and stocks is not a learn on the job occupation, it becomes very expensive, all the guys who have tried it will tell you, ie., if they are still in the game.

MY ADVICE:

Get your priorities clearly sorted out before you attempt to trade.

IF YOU DON'T:

The statistics are 60% of all new players accounts go broke within 6 months.

Chapter 8:

Money Management:

Now we get down to money management: What is money management all about, we have heard that term before but did it make any sense to us? Most people I meet have no idea of what money management means at all. A lot of people think it is money in the bank and you get interest on it!

Money Management is about rules:

First off you work out how much money you have to risk on speculation, then you work out what your objectives are: When you have that worked out you can then define some money management rules.

Most people start trading with great ideas and as a result do not consider the odds they are playing with, mainly because they never give a thought to the fact they will lose. When they do lose they realise that they should have known more about the business and they should have had a plan.

It's too late then unless you have an endless supply of money, one guy who fooled them for a while was that "pommie" Nick Gleeson from Hong Kong who sent the world's oldest bank upside down.

The world's most successful traders or investors know their odds on probabilities of success, those that don't are either lucky or they end up broke.

ODDS ON SUCCESS:

A simple way to look at probabilities is on a ratio of success to failure.

If you have a plan of attack and you have researched it properly you will know that the real great trades only come about 1 or 2 in 18. Medium-term successful trades might come 5 in 18 so that already is 7 in 18 and about 38%. So what is left? Obviously 11 trades with "unknown" results! How do you handle that?

Well I handle it like a game of golf, I figure I have 18 holes to play and the scorecard that goes to the CAPTAIN OF THE CLUB contains the good with the bad.

So it is the "bad trades" I have to control because if my original game is good I can rely on 7 "good trades".

Sometimes you can shoot the lights out of the game and have 15 "good trades" out of 18 but they are rare events. When these come along you have to have a plan to keep the results in the bank and not risk them on future games.

So we need to have a money management plan. You should be able to identify with me so far.

YOU HAVE TO MANAGE THE COURSE FOR 18 TRADES to find out if you played the game well or not.

ANOTHER THING:

The game is not just 18 holes, the championship is 72, 4 brackets of 18. On the 1st 36 holes you have to make the CUT. If you can't make the cut then your game has serious faults and you have to go away and practice some more before you play again.

So bare all these things in mind and I will explain how to manage your money so that you can always stay in the game.

If you play by my rules you will find that the game goes on forever, it is not just a simple game as everyone around you thinks. Trading is a more serious game than golf but the results are still the same.

People often say to me you are a golf fanatic, I just nod and agree because I have got more discipline out of playing golf than you can imagine. I play 3 days a week and the same thoughts go through my mind when I am out there drinking beers and having a good time, as do the plays when I am in my office deciding which "trade" and "club" to use off the "tee".

My personal approach is intuitive in a way but that does not matter if you understand the odds, trading is about beating the odds. Situations keep changing and you need to keep adjusting. Nevertheless you must always keep sight of the overall goal.

ADJUSTING:

Too many people are inflexible, I know plenty of them, the're losers in commodity markets because they refuse to admit situations change. Situations change on a day to day, week to week and month too month basis, you have to adjust with them.

All this is part of the business of trading so how do we adjust?

EASY HAVE SEVERAL DIFFERENT TRADING PLANS:

I have 3 plans I follow:

1. **The Scalp trade**
2. **The Stretch 2/3 day trade**
3. **The Long Pull trade**

Each trade has its own parameters and you have to recognize which trade you are setting yourself into before you take it.

Just the same each entry has the same risk control factors associated with it.

IF I AM NOT IN PROFIT IMMEDIATELY I QUIT THE TRADE.

Once you have a profit you can relax to a degree but that really is difficult if you haven't set your goals before you enter.

It is so easy to just grab the money and run when you have a profit and then book the trade to the SCALP BOOK. What happens is you keep scalping for the rest of your life. It can be a good occupation but there are many times you wished you had stuck to your original plan.

What I will say from here on is purely advice on money management and you can take it or leave it.

MONEY MANAGEMENT:
Keep entry losses small.
Let Profits run and close in profit stops regularly.
Never let a profit become a loss.
Never trade without a stoploss.

Now that is fairly simple to remember and that is all you have to do if you have a good trade selection procedure.

TRADE SELECTION:
This is the secret; if you want to take consistent profits you need to know when and where to enter trades. Whatever the objective of your trade is you must still follow the "money management rules".

If you want to scalp; scalp, if you want to stretch; stretch, if you want to go for the long pull go for the long pull. Just remember it is easier to get out and get back in than it is to just camp on a position when it is not confirming your view every day you are in it. I am a big believer in standing aside when the market is not confirming.

THE SCALP TRADE:

Scalping is a day trader's occupation; you just buy and sell off the 1, 2 and 3 day support and resistance, either with the trend or counter trend. Mostly the counter trend direction suits the day trader. You get what you can and run at the first sign the market has stalled.

THE STRETCH 2/3 day TRADE:

This could still only amount to a day trade but it is trading with the medium-term trend and letting the market keep running while you chase up the trade with close profit stops. These trades are usually entered on breakouts with strong trend indicator readings in your favour. At the first sign of a correction your profit stop takes you out.

THE LONG PULL TRADE:

These situations are rare because you have to find an INTERMEDIATE DEGREE top or bottom to sell or buy into. If you get the market right you are in a good position to just "camp" on it without any heat. These trades require discipline because you have to give the market room to correct. But you still have to have a stop somewhere where the market says you were wrong for the time being.

THINGS TO REMEMBER:

The only thing easier than making money in the markets is losing it.

It is just as easy to re-enter a position the next day as it is to hold it against your best judgement.

TRADING MARKETS REQUIRES TRADING MANAGEMENT:

There is no easy way to buy or sell something and then ignore it and hope it will work out in your favour.

Ask all the losers. There are plenty around that have stories to tell you. They have "curve fitted" stoploss systems that can't adjust to the day to day market, systems are worked out on averages and averages are not what is happening in the market. As soon as your position gets out of step with the market you have to quit it. If the market runs in your favour you can stay with it, but you must continually move your profit stop in.

I don't know why I am writing all this stuff as it sounds so simple to me. Is it simple to you? If not give the markets a miss, save the grief they will bring you.

THE 18 TRADE MONEY MANAGEMENT PLAN:

Say you have a trading capital base of $100,000, If you don't you are starting without any money in my opinion and your worst enemy is going to be fear of success.

Your first objective is to define the risk you are prepared to take. For instance to make it easy let's say we are prepared to risk $18,000 of our $100,000 on 18 trades. That is $1,000 per trade.

So every trade we take for the next 18 trades follows the same criteria. No deviation.

Your profit objective has to be a minimum of 3 to 1 so you have to see an opportunity to make at least $3,000 before you would consider the trade in the first place.

Your first priority is to find a place in the market where you can enter and place a close stop loss. This way you can plan your trade around your $1,000 risk strategy.

For instance if you were buying a breakout you would place the stop no more than 5 "ticks" below the breakout point, or just below the breakout bar. The dollar value can be determined in advance so then you can leverage the position to suit. If you were trading a 5000 bushel Soybean contract 5 "ticks" is $62.50, if you allow for slippage you are risking anywhere from 5 to 8 ticks normally, 8 ticks is $100.

So you can trade 10 contracts with a 5 to 8 "tick" stoploss which means every successful trade must have a profit target of $300 per contract, that is 6 cents or 24 "ticks" each. The average daily range of a bean contract is 7-8 cents so it still fits a day trade possibility but it is more likely to take more than a day depending on volatility. Sometimes the ranges can be anything up to 15-20 cents in trending markets.

Once you have taken the position and the market moves you to 8 "ticks" in profit on the next or subsequent 5 minute bar you move the stoploss to "Break Even" or just below the previous 5 minute bar. No ifs, no buts, you move the stoploss in because you have been lucky so far and now your opportunity cost is nil or less than when you started.
After this you just play the game and the results will speak for themselves, if you keep moving the stop up you are making money.

After 18 trades you can start a new plan that adjusts your risk and leverage to the correct number of contracts.

Chapter 9:

Monitoring your progress:

Monitoring your progress is a must if you want to learn where you are making mistakes and improve your execution methods.

It is so easy to take trades and forget about the reasons why, how they progressed and their final outcomes.

Possibly the foremost reason for my extensive writings is due to my analysing everything after the fact. When I began learning Gann and Elliott methodologies I was tempted to take everything I had read as "Gospel". That was until I found flaws in many of the approaches being taught around the place.

It is so easy to be mislead in this business, you have to find out for yourself what works for you and what doesn't. When you find the ideal trading plan you can rely on then you only have to stick to it to be successful. Finding one that suits your personality is extremely important to success.

KEEP A TRADING LOG:

1. **Write down each trade you make.**
2. **Reason for taking the trade.**
3. **Objective you had when you took it.**
4. **Risk you took on the entry.**
5. **Whether the trade went to plan.**
6. **Final outcome of the trade.**
7. **Take a snapshot of the chart pattern when you took the trade.**
8. **Take a snapshot of the chart pattern when you exited the trade.**
9. **Mark in the points where you moved your stoploss.**

To do all this takes no time at all, you just snapshot your screen and load the picture into PAINT and edit in your comments.

Save the picture file in a date format, e.g., 2001-08-12A etc.,

Keep them in a FOLDER on your computer and you can use a program like ACDSee to flip through them easily.

Over time you will have a complete record of your behaviour under pressure.

ANALYSE THE REASONS FOR THE "UNLUCKY TRADES"

1. **At least once a week go back over your trades.**
2. **Once a month go over all the loss trades and note the reason.**
3. **Once a month go over all the profitable trades and note the reason.**
4. **Try and define a trend in your bad trades.**
5. **Try and define a trend in your good trades.**
6. **Note how many times you followed your plan to the conclusion.**

If you do this two things become apparent:

1. **Did you follow your plan.**
2. **Was the plan a good one.**

The more you look at the reasons why you took the trades, the chart pattern when you took them, and the final results the more the subconscious is trained to avoid the bad trades.

Your good trades will also be confirmed in your mind at the same time and next time you see the same "set up" your confidence will be intact to take the trade.

Trading for a living is a matter of confidence, entry technique and execution. If you can't train yourself to avoid the bad trades then you will never be the best you can be.

You have to have a selection of trades you are comfortable with, a plan to follow, and be self disciplined to execute those plans flawlessly.

Once you have this all together you will have it made.

Most people will not take the trouble so they never progress, they leave loose ends everywhere. It's amazing why they wonder how they lost their money when it's all said and done.

You can buy all the books on psychology of trading you like but the easiest way is to analyse your own actions to find out your own problems.

The idea is to never repeat the same mistakes, then and only then can you be successful.

Chapter 10:

Trade Entry Techniques:

ENTRY TECHNIQUES:
My order of preference on how to enter a trade is:

1. **Enter on a breakout of resistance or support.**
2. **Enter on rejection of resistance or support.**
3. **Enter at the opening price of the day.**
4. **Enter after a retest of the opening price of the day.**
5. **Enter on a rejection at a market time & price level.**
6. **Buy support and reverse position if it breaks down.**
7. **Sell resistance and reverse long if it breaks up.**
8. **Ring the broker and buy or sell at market.**

In all cases a tight stop loss policy must be implemented.

EXIT TECHNIQUES:

1. **Exit on a stop loss or trailing stop loss.**
2. **Ring the broker and exit at market.**

Before you get into a trade you have to have an escape plan, that is the reason you should only trade liquid markets. Markets without liquidity can trap you. That is why I never trade options these days.

PROBABILITIES ON EACH TRADE ENTRY BEING SUCCESSFUL:

Whether you give the market room or place a close stop loss the probabilities of success are still around 40/60. There are occasions where the odds look better because of the fundamentals or the market's established trend.

These extra special occasions come to be recognised by experience and feel for what the market is doing.

When you combine chart formations (pattern analysis) with fundamental observations you are on your way to being a trader.

Enter on a breakout of resistance or support:

The 1st entry technique a novice or beginner trader must learn is to find a place in the market flow where he can control RISK.

The simple breakout entry method is the simplest of all disciplined entry methods to learn and practice. This is where a market breaks out of a known trading range into a new zone of activity.

The practical theory is that markets find levels of support or resistance where traders buy and sell off when things are in equilibrium. These levels are easily identified on a 1-minute, 5-minute, 30-minute, 60-minute and daily chart.

The underlying benefit of these levels is that "stops" build up in the market on the other side of these levels. So that when the market penetrates them, if they are there in abundance, the market flow will facilitate trade and the market can move to new levels away from the existing trading range.

If there are no abundance of "stops" then the market will make a "false breakout" and retreat back into the prior trading range. In which case you don't want to hold the breakout position you may have taken.

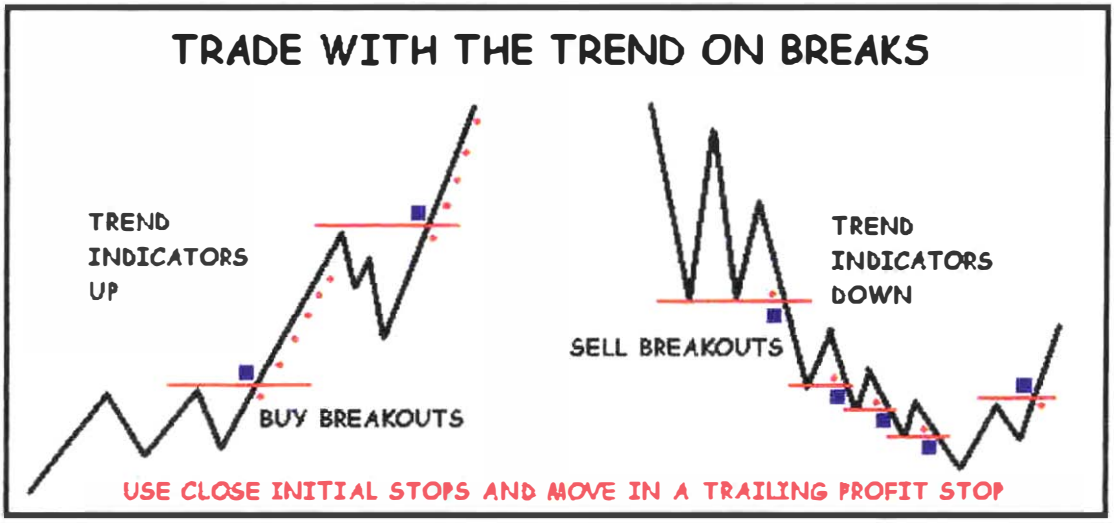
Pretty simple stuff but extremely effective as a trading tool.

The breakout entry method works more reliably when you are trading with the dominant trend, i.e., the daily trend. Yet you can use it to enter on a 5-minute, 10 minute, 60 minute and daily chart. The patterns are always similar just that you get more of them on a 5 minute chart.

Breakout levels could be defined by a single swing high or low or a series of double bottoms or tops. The stronger the level appears to be then the more chance of a RUSH if the level is broken.

These breakout points are the primary basis of my trading plan. What I am looking for all the time is a place where the trend will continue to make advances and a safe place to enter where I can control the risk.

If you can master this method of trading you can make a living in the speculative markets without doing anything else.


TRADE WITH THE TREND ON BREAKS
TREND INDICATORS UP
BUY BREAKOUTS
TREND INDICATORS DOWN
SELL BREAKOUTS
USE CLOSE INITIAL STOPS AND MOVE IN A TRAILING PROFIT STOP

The best pattern set up for break out entries are in a running market in the direction of the main trend.

There are two possible ways to protect your capital on an entry this way.

1. **Use a Bulldog Stop, i.e., 3 or 4 ticks if the market doesn't run.**
2. **Use a Stop back of the last swing high/low or 2 day low/high.**

There is also a combination method you can use.

For instance if you trade multiple contracts and are prepared to take a bit of heat you can say buy or sell 2 at the break out and use a Bulldog stop on 1 and the alternate stop on the other.

This method will allow you a bit of latitude if the market comes back on you after a test and you can still be right if the market continues.

My advice is to re-enter the next break again with the Bulldog stop if the first one got hit.

This requires a bit of discipline and management to execute if you are not trading on line, but it's still possible.

I use this approach when I think the existing trend is strong enough for a follow through.

My idea of trading is to trade with the daily trend on a 5 minute chart, it could be counter trend that day but the daily movement off the opening price will tell you in any case. Position traders should only trade with the medium-term trend daily indicators.

Day trading session breakouts versus Daily chart breakouts:

Normally it is only possible to trade with close stops during the day session. Breakouts on a daily chart can be violent events and are often tested. By that I mean the market will come back and hit your stop before proceeding in the direction you planned.

To avoid all the disappointments encountered by those people trading breakout systems on DAILY CHARTS one needs to manage the trade entry by working with a 5 and 60 minute chart. All the "arm chair harry's" lose money because they can't manage their trades correctly. Most systems require them to give the market "lots of room". I have seen so many instances of automated systems taking a position, becoming profitable and then ultimately ending in a loss. If you have already experienced these phenomena you had better read on and learn how to avoid this.

We don't want to give the market any room, we want to be right immediately or we want to be out! So we must find trade entry points that relate to the current intra-day mood of the market, if we get a runner we can hold it.

5-minute chart:

The 5-minute chart creates entry opportunities all of the time. The daily chart does so very infrequently.

60-minute chart:

The 60-minute chart defines the breakout levels the clearest of all as it shows the daily trends and the levels the traders are mentally tuned into.

Scalping off the 5-minute chart:

This is my favourite occupation, looking for trades that last only a short time. Get in, tight stoploss, and get out when you have got what you set out to get.

Knowing that the market is a money tree and you are only a servant sent to pick it is a good feeling when it does what it is supposed to and you do the same.

Don't be greedy, take what you know you can get and get out.

These types of trades don't come along all that often so when they do have a go. You can take as much "size" as you like when these trades are in your favour because your risk is minimal.

The longer you study and observe markets the easier you come to believe that trading markets is easy.

All you have to do is become a believer that the market will do everything much the same as they did in the past, given the conditions are similar.

Professional traders have habits, they never vary, it is the fool's money we are taking home. If they want us to have it then we must take it; as a friend of mine Scott Warner says, "It is our duty"!

Here's something that happened the other day:

Trend was down and the market rallied for no good reason on the opening of the 15th, after a while the traders figured it was no good buying the support so they sold it down, and down it went progressively.

By the open on the 16th the market was a solid sell and the GAP opening took all the stops and "would be bulls" by the balls and they had to cover.

No point arguing with the "PATTERN" just flow with it.

Keep moving your stops in to protect profits and leave when you are stopped out.

Pretty simple really, only important issue is choosing the right market conditions to do it in.

These are relatively easy to identify if you have studied all of the preamble I wrote at the beginning of this book.

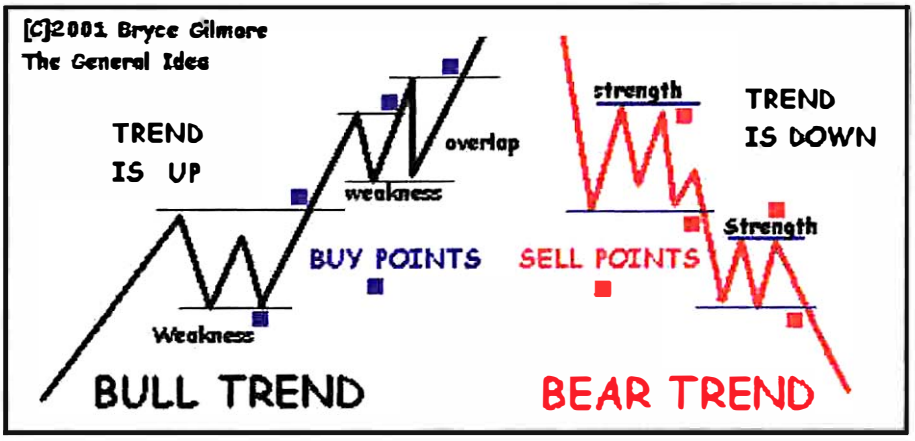
The real trick is in having a plan and following it only when the correct conditions exist.

If you get "out of step" take a break and re-group.

Enter on a rejection of resistance or of support in a congestion area of an established range:

The common technical description of this market position would be double tops or double bottoms in the middle of a trending market that has become range bound. Commonly this pattern would indicate another thrust in the direction of the prior trend.

That is, SELL into Strength in a downtrend or BUY into weakness in an Uptrend.



Don't confuse this methodology with selling extreme tops or buying extreme bottoms, there are different rules for those situations.

This technique I am about to talk about is simply about getting back in step with the market when you are sitting on the fence. To do that we use intra-day chart patterns.

Opportunity traders often trade counter trend when the situation demands, yet to be super successful you have to get back in step with the market once those opportunities are exhausted. Only a few talented traders realize this, most others keep trading counter trend all the time and miss the runs too often. I have been guilty of this many times but I keep telling myself to watch the market more closely, slowly I am over coming the problem.

What you must realize is that you must stay flexible to the slightest change in market sentiment to trade this method. You cannot afford to have a fixed view. If you can't do this then stick to the breakout formulae it will be enough.

Nevertheless these are the things you must understand.

1. **Trending moves seldom make corrections to the main trend that last longer than 1-3 days. That's a lot of bars on a 5-minute chart.**
2. **Corrections seldom make a retrace of the prior primary movement that is greater than 61.8%, normally 50% or 38.2% is the order of the day.**
3. **Because corrections are fast they do not give you time to sit on your hands and wait for confirmation.**
4. **If the correction to the main trend is failing, it will do so by signalling a failure, i.e., a double top or slightly lower top in a bear trend or a double bottom or slightly higher low in a bull trend. It could penetrate the double top or bottom and fail also.**
5. **The market will normally create a base below or above where the failure is to occur. Your last resort is to trade the break point. If you can identify it higher or lower then all the better.**
6. **When you identify this situation you can act with a tight stop loss, they won't all work but when they do they will be well worth while.**
7. **You can also get in on the way using a 5-minute chart.**

Now if you don't understand what was said above here is a basic outline to guide you.

Market strength is an upward movement, Market weakness is a downward movement.

A bull trend is a general upward movement, a bear trend is a general downward movement.

So it follows that STRENGTH in a bear trend is a correction, WEAKNESS in a bull trend is a bull market correction.

So what happens next?

In a bear market the STRENGTH is exhausted as the correction terminates.

In a bull market the WEAKNESS is exhausted as the correction terminates.

The point is there are ways to try and identify these terminations and that is what I am referring to. A picture paints 1000 words but before one can understand the picture the brain must be receptive to it.

UNDERSTANDING GENERAL TREND STRENGTH OR WEAKNESS:

The Depth of the market corrections.

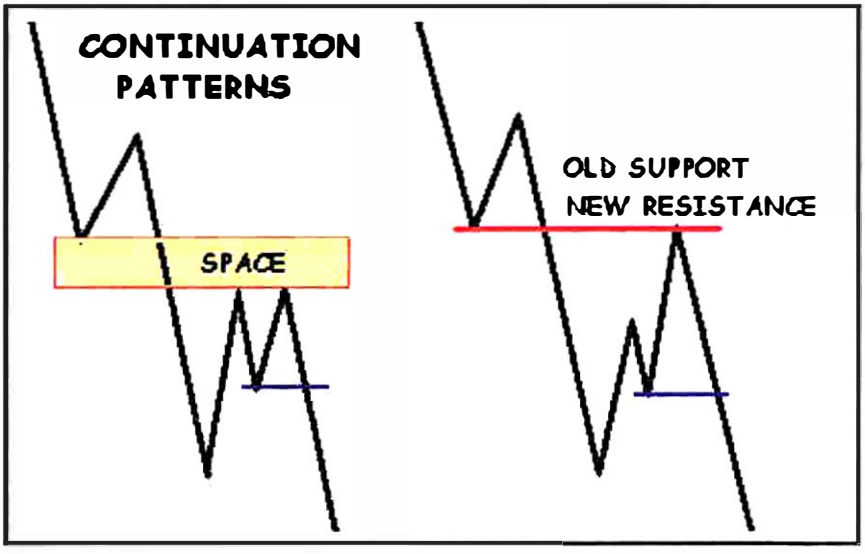
It is all a matter of pattern before you determine to buy or sell the strength or weakness having regard to your perception of the major trend.

If the current correction is only a reaction and leaves some space between the previous correction phase in the series it is more likely that the strength or weakness at the time will fail.

The market could also retrace all the way back to the base of the prior correction swing level and fail. This is also known as retesting the prior breakout.

In most cases the failure to take out old support will halt the move and a continuation of the prior major trend will follow.

The diagram shows only the bear case but if you reverse the patterns the bull case would apply.



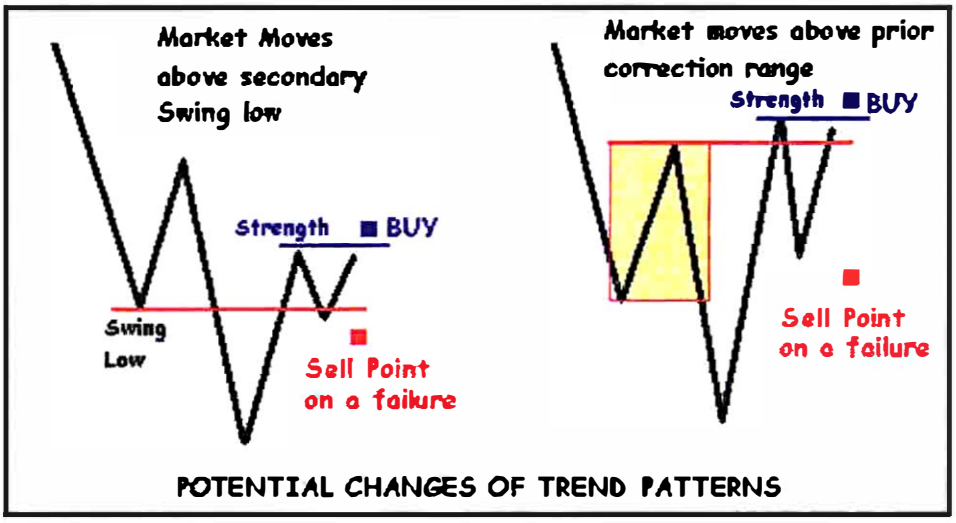
To become an all round trader you must learn to identify with these patterns. These patterns will give you an opportunity to make money!

These patterns are your first indication that the current strength or weakness is about to fail. Proof comes later.

There's an old saying amongst traders, "IF IN DOUBT – STAY OUT".

BEWARE OF PATTERNS THAT HAVE POTENTIAL TO SIGNAL A CHANGE OF TREND:

If the current correction is overlapping a previous swing high or low in the series of the current trend; then the trend cannot be defined as strong, it maybe a consolidation or a reversal of trend. You must beware not to take anything for granted.



I like reminding myself of this situation because the market could be changing trend and you have convinced yourself beyond any doubt that a continuation will follow, i.e., the market will resume the prior major trend.

Anytime you have that feeling beware!

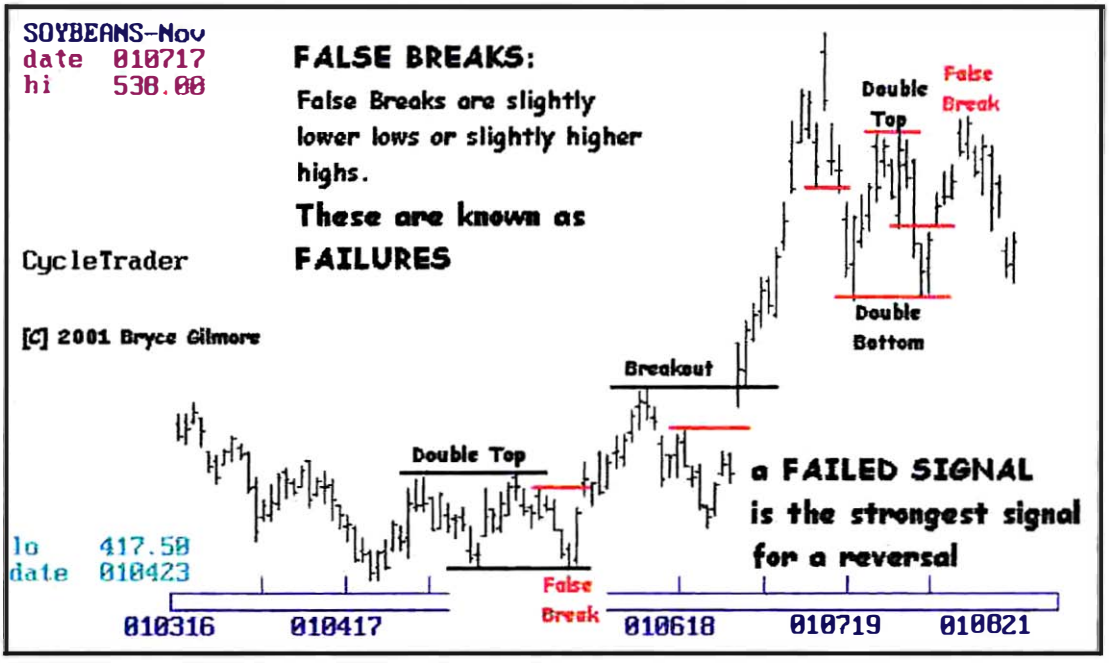
Over the years I have experienced trend reversals that seemed illogical to me; when taking into account the local news events and those around me. But the trend did change and confirmed itself later.

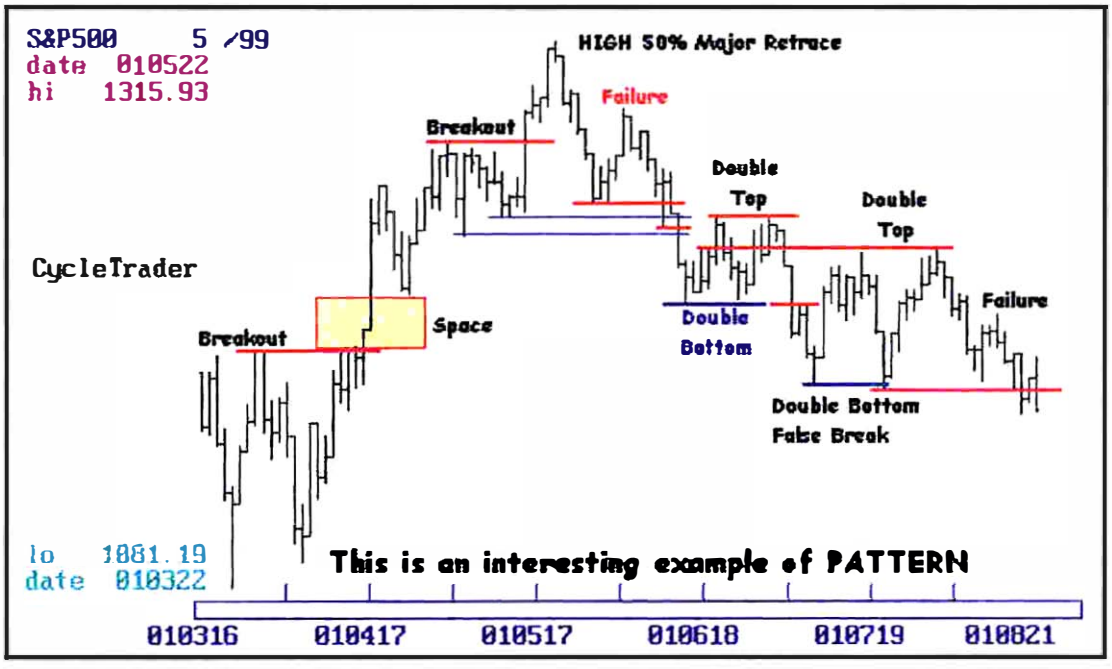
The pattern of the market trading ranges each day monitor the money flow in the market, the market is always right (you can argue that one all you like, I don't care what you come up with).

The thing is that when you get overlaps in wave structures the traders are not scared of the past. You must ask yourself the reason why? The only reason can be that they have a new agenda for some reason unbeknown to you.

The market pattern is the first sign of change. Stay with the pattern no matter what your personal feelings are.

Some recent examples of PATTERN with comments:





Study these examples of market behaviour from two totally different complexes and note the similarities.

All markets have similar behaviour patterns and you can trust them.

STOP & REVERSE ENTRIES:

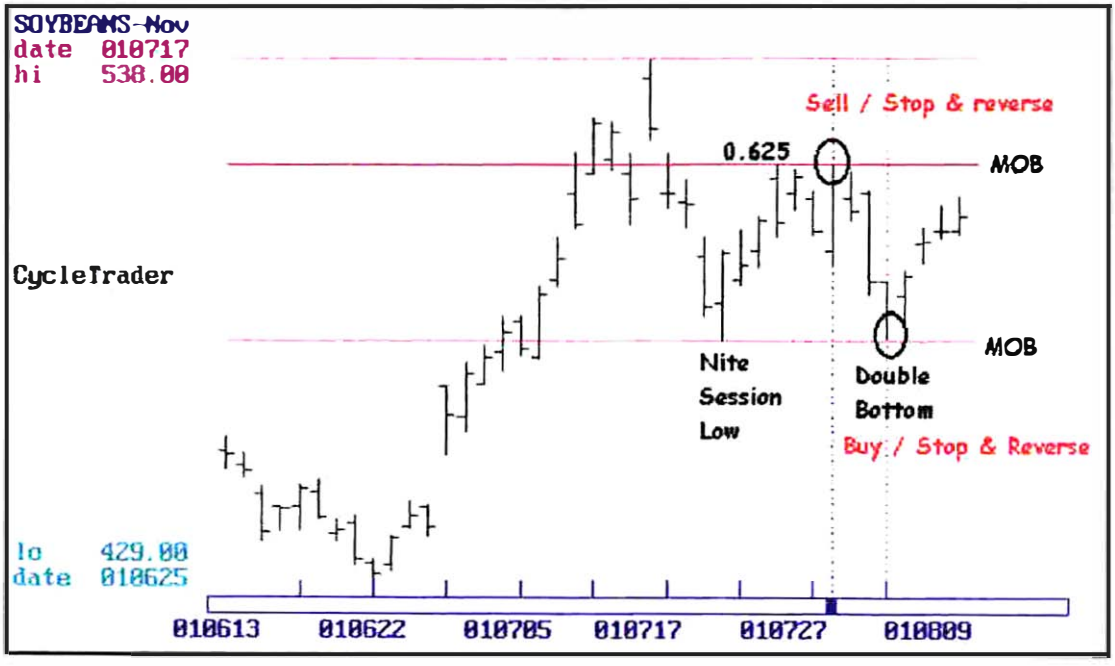
A stop and reverse objective can be applied when you have a situation where you can buy a support level and if it fails reverse short and go with the breakout.

Another method is the buy a breakout and if it turns out to be a FALSE BREAK and FAILS you reverse short as the market retreats back into the previous range.

Usually you would utilize this form of approach only at a known support or resistance level.

Normally you would be betting on a support level holding in an established range so you would buy and reverse short if it broke down through support. In a way this is an each way bet because you could win both ways or lose very little if you don't get a clear outcome. These types of trades are only viable when you can establish a clear MOB point (make or break). The point needs some technical substance such as a price level on a ratio of major proportion, e.g., the market was testing an exact double bottom on a 50% retracement level or something like that.

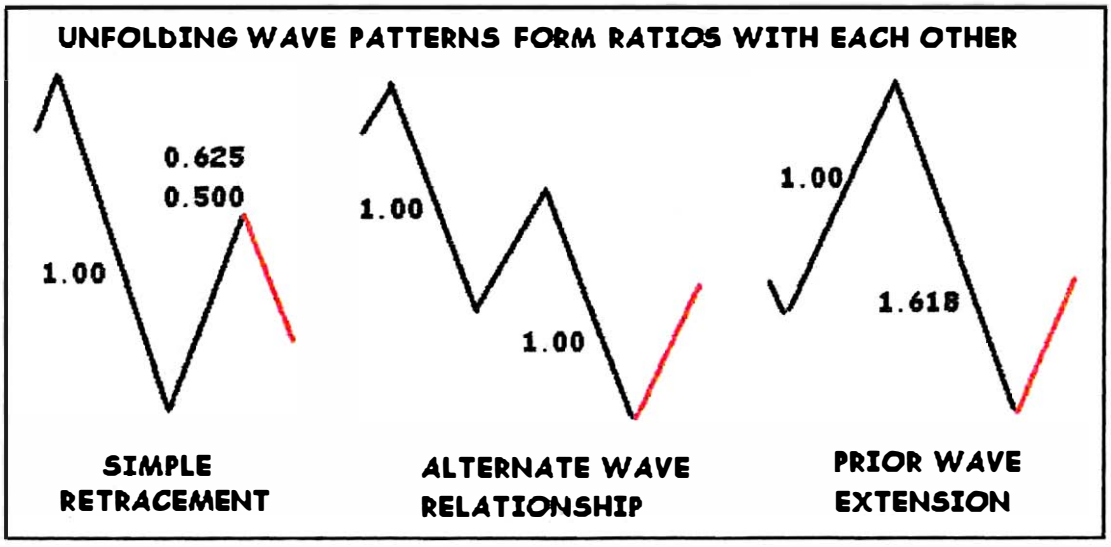
The Bean reversal recently describes what I am talking about.



Double top MOB on a 62.5% retracement, Double bottom on a 50% retracement. Explore all the possibilities each day and the answer is there.

PRICE LEVELS WHERE WAVE PATTERNS RELATE

It is common knowledge amongst technical analysts these days that market swings move in RATIO to each other. i.e., the ratio of the unfolding patterns relate by ratio to the preceding swing or the alternate swing.



Buying or selling the exact price level of a swing termination is probably the most difficult trading technique to master. Yet it is an option open to the professional trader.

Technical traders are using ratio methodologies these days and they will nest orders at levels such as these illustrated above.

When the market reaches these levels it should be in an overbought or oversold condition and losing momentum if it is to act favourably to your analysis.

You need to remember that at every market swing termination there may be only 1 or 2 trades transacted so you need an order that will be executed regardless of the reaction that occurs.

You could place an order MIT (Market if touched) with a stop order just out of range for protection. If the trade works you have a position going with the least amount of risk available.

Before attempting trades of this nature it will pay you to fully understand the contents of my book, "Dynamic Time & Price Analysis of Market Trends", [c] 1998.

TIME FRAMES:

Learning trading techniques requires an understanding of the market in all time frames.

It is foolish to believe that you can come into an industry which contains some of the smartest minds ever to be found in one place and start beating them within a week.

You must progress ONE STEP AT A TIME.

Begin by taking the simplest of trade entries and perfect those techniques before moving onto the next.

The longer you observe the market the more experience you will develop. As time passes you will form "beliefs", it is important for your success that you develop a belief system that is automatic. This will be the only way you can consistently "pull the trigger" at the right time in the future.

Trading is a reflex action of your belief system, you cannot dilly dally about with it, your mind must be clear on your objective, your risk and your reason for taking the trade. If it isn't then you don't take the trade.

All of the patterns mentioned in this text manifest themselves in all time frames.

1. **1 minute bars**
2. **5 minute bars**
3. **15 minute bars**
4. **60 minute bars**
5. **Daily bars**
6. **Weekly bars**

When you analyse all time frames the picture of opportunity becomes clear and concise.

Chapter 11:

Initial Stops & Trailing Stops:

TRADE MANAGEMENT:

The next thing you need to learn about trading, once you have taken a position, is capital protection and profit preservation.

Any fool can get a position going but what do they do then? Hope, pray, forget it, ask the broker? You would be amazed at what some people are capable of doing.

Good traders manage their trades. How they do that is by never letting a profit turn into a loss and never holding a losing position. Do that and the rest looks after itself.

The cardinals rules for proper trade management are :-

1. **Never hold a losing position beyond your initial stop.**
2. **Never trade without a protective stop in the market.**
3. **When you have a winner going follow it with a trailing profit stop.**
4. **At the 1st sign of a reversal of trend close the position.**

These are pretty easy rules to remember but take work, and as we know most people don't like work.

There are two ways of managing a trade correctly:

The first way is take the trade:

1. **Take the trade with your initial stop loss set.**
2. **Once in profit move your stop to Break Even.**

For instance if you were selling a breakout point in a downtrend of November Soybeans @ 500 you could place an order like this :-

Sell 1 November Beans @ 499^4 On Stop to open
If done
Buy 1 November Beans @ 501 On Stop to close GTC

If the market breaks to 499^4 it sets off your order and you are in the trade.
If the break is a clean break and you move into profit immediately then once you have 2 cents profit, i.e., market is trading at 497^4 then you ring the broker and place this order.

Cancel order to buy Nov Beans at 501
Buy 1 November beans @ 499^4 On Stop to close GTC

Now, the worst case scenario is that the market comes back and takes you out, and at worst you get slipped a couple of ticks.

If that happens you start from scratch again.

ONCE THE POSITION IS SET:

Depending on whether you are position trading or scalping you could do the following.

Scalping:

1. **Keep moving the stop in behind the high of the 2nd previous 5-minute bar or closer if it is a wide range bar.**
2. **Exit immediately your patience runs out if the market finds support for longer than 20 minutes.**

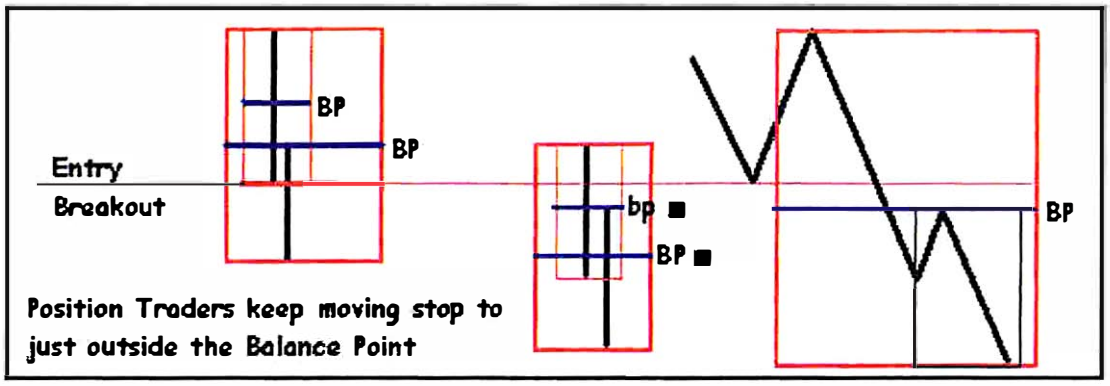
Position Trading:

Now you have to allow the market room to move to stay on a trend.

1. **Don't move the stop in closer than a few ticks above the daily balance point.**
2. **Or move the stop to just above any retracement level that found resistance.**
3. **If you want to keep your initial entry stop on until the market allows you to place it outside of the balance point danger zone that is acceptable. This way you won't move to breakeven until you place the 1st balance point stop.**

Now I hope you will understand what I am saying about the balance point, if you don't I am going to explain it again.

The balance point for today is the mid point of yesterdays range, the balance point for 2 days is the mid point of the past two days range. The balance point for the past three days is the mid point of the high/low range for the past 3 days.



The swing chart balance point is the mid point between the last swing high and the current low, or the nearest correction swing in the trend movement. If you use a 2 or 3 bar swing for the type of time frame trading you like this system works well as it always adjusts the stop to the current market momentum.

The example so far was centered around a declining market so just reverse the scenario in an upward trending market.

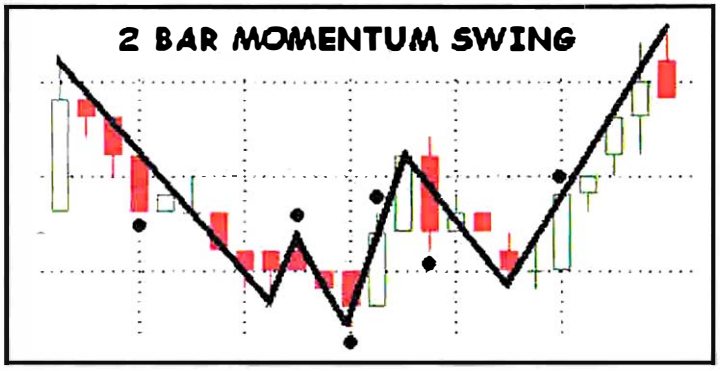
Personally my feelings are if you are scalping the 5-minute chart is the one to use. Some traders prefer the 1-minute chart. If you are medium term the hourly chart is your next best tool. You have to be a long-term position trader to apply these methods to a daily chart.

WHAT IS A 2 bar SWING CHART:

A swing chart measures market momentum and direction without having regard to anything else but price range.

The swing chart swings up or down depending on the current bars trading range when compared to the prior 2 bars, unless you encounter an outside reversal bar.

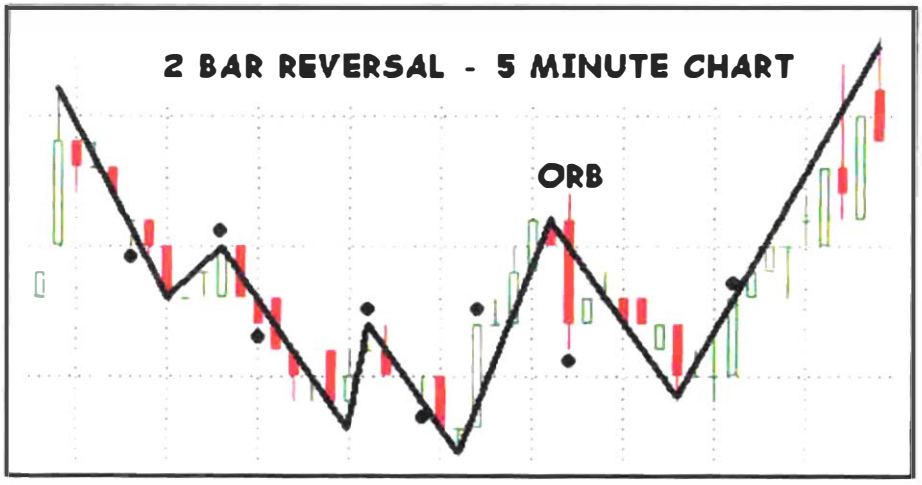
This example was constructed from a 10-minute bar chart.



Rules for construction of a 2 BAR Swing chart:

1. **The momentum is up when the current bar makes a higher high without crossing below the low of the past 2 bars.**
2. **The momentum is down when the current bar makes a lower low without crossing above the high of the past 2 bars.**
3. **In the case of an outside reversal bar with a close outside the area of the prior bar the momentum direction has changed without taking into account the prior 2nd bar.**

The same data as above in 5-minute bars:



OUTSIDE REVERSAL BARS:

Outside reversal bars are your 1st indication that momentum is changing and signal you to move in all stops immediately if you haven't been taken out already.

COMMONSENSE:

Everything to do with successful trading involves commonsense, if you don't have any then I suggest you don't trade. I have met so many people over the years that have no idea what commonsense is. It doesn't matter what you tell them they refuse to listen.

The only way you can make money trading is to keep losses small!

This is the area you must concentrate all your efforts on.

Chapter 12:

Trend Indicators:

Now I have covered entry and exit techniques lets have a look at the surrounding information that can fine tune our reasons for taking the trades when they come our way.

CONFIRMATION TOOLS WE CAN USE ARE:

1. **Trend Indicators.**
2. **Open Interest figures.**
3. **Commitment of Traders Reports.**
4. **Exchange & Official Government Announcements.**
5. **News Research Services & Opinions.**

These are the tools we need to use all the time to keep our minds on the "ball".

TREND INDICATORS:

There are only about 5 indicators I find worth watching as most indicators tell you much the same thing, only difference they do it faster or slower.

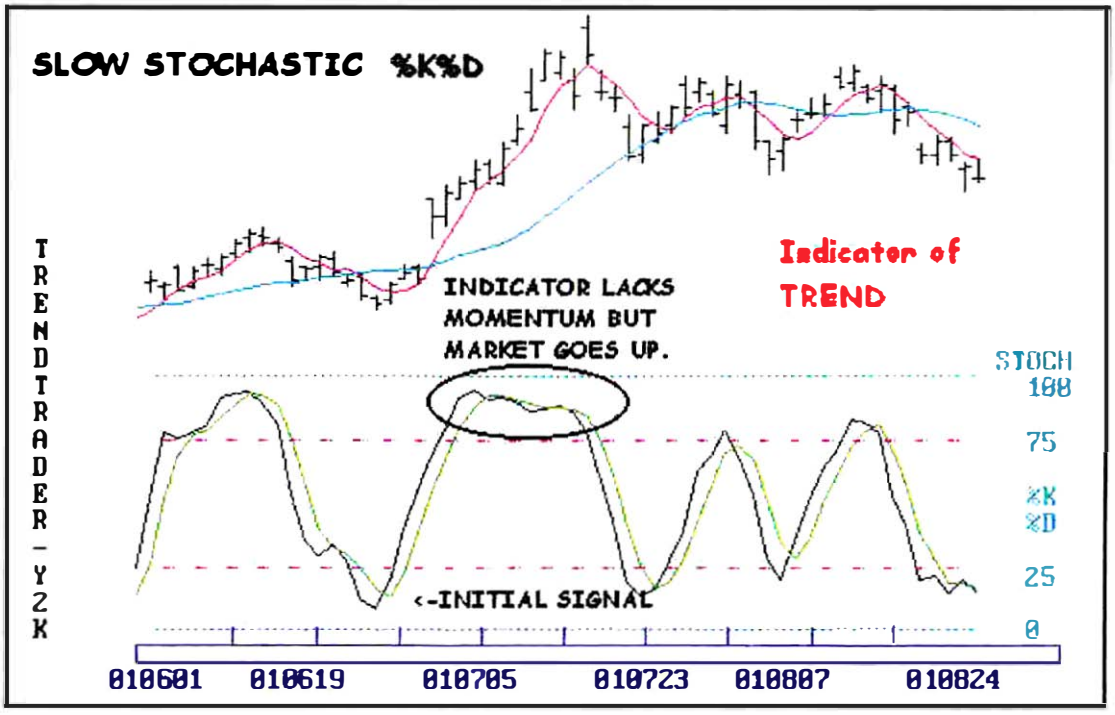
1. **Slow Stochastic %K %D**
2. **Directional Movement Index (Welles Wilder Jnr. 10 day)**
3. **WaveTrader Slow Trend Wave.**
4. **Gann 3 day swing on the daily chart.**
5. **20 and 50 day moving average.**

There are others like the RSI, moving average crossovers and MACD you can look at but they only say much the same thing in a general way.

The Slow Stochastic:

This indicator is probably the most popular after a moving average concept most "black boxes" use.

The %K%D stochastic turns with the price movement very quickly and in times of initial trend reversal has powerful characteristics as it holds the initial trend if it is a reversal of trend.



I often wonder how many people appreciate the truth of this indicator.

The real important point of following this indicator is because it is a staple ingredient of market folk law. There are millions of traders watching this indicator; if they have stopped then the computers are watching it for them.

If you wish to ignore what this indicator is doing you do so at your own peril. I use a 7-day %K%D stochastic for my evaluations of short-term momentum on the daily chart.

There are so many books written that explain the full value of this indicator that I am not going to say anymore than it either signals the market is going up or it signals the market is going down.

It has two lines that crossover from a bear tone to a bull tone. We must always be aware where these lines are and when to pre-empt their possible change in direction.

As a trend proceeds the stochastic lines reach extremes in their chart range and can behave erratically; at this time they become unreliable.

There are lots of theories about price divergence and oscillators but I would forget all about them if I were you. Those beliefs don't help you trade.

They are interesting concepts and may work from time to time yet, they are not foolproof and we don't need to know about things that are not foolproof, do we.

So there I go and all the "geese" making a living drawing charts with % K%D indicators below them, and advising the public how to trade from their ivory towers in brokerage houses will accuse me of putting their systems down.

It's a pity I have to take this attitude about brokers and commission houses but I have my reasons. They were never held responsible for their actions because the law protects them, they have a license to tell you anything they like and get away with it. Shame isn't it.

Well it is my job to give them a bad day, why? Because I know more than they do.

Still we work with their tools and use them to our own advantage that is the secret in this business using everyone else's tools to take advantage of their use of them. The more you learn about other peoples habits in this industry the better off you will be. Now that is a fact of life you better not forget.

When the slow stochastic becomes useless you need to move to the Directional Movement Index.

DIRECTIONAL MOVEMENT INDEX:

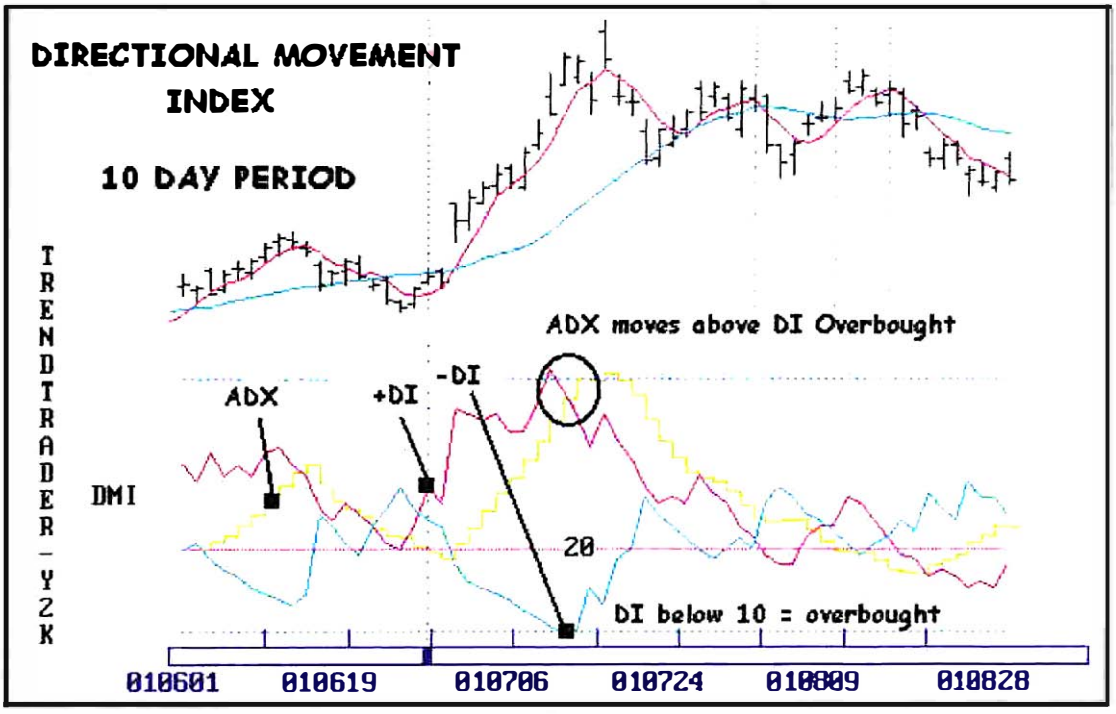
This indicator measures the medium term trend and the overbought and oversold conditions the market encounters from time to time.

It is an excellent confirming indicator whenever the market gets into a proper trend. If no trend is evident it is not worth a cold pie.

There are 3 elements to the DMI:

1. **It has a + DI for measuring positive momentum.**
2. **It has a – DI for measuring negative momentum.**
3. **It has a DMI or ADX which is a strength of momentum indicator to measure the depth of the signals.**

Readings above 20 on the DMI need to be seen before you take any notice of the concept in the DI crossovers.



The + DI and the – DI are plotted between values of 0 and 100, they go up and down depending on the price series. The market trend is long if the + DI is above the – DI and vice versa the trend is short.

If the trend is strong and the ADX crosses above the higher DI the market is said to be overbought or oversold.

If the lower DI goes below 10 the market is overbought or oversold.

I have found in the past that if a DI goes below 10 it will seldom stay there for longer than 4 days and a violent change in trend will occur.

Once you see a DI reading below 10 you had better begin to look for price and time to know where the trend will terminate.

This indicator is excellent because it is used in so many computer trading systems and when it is in the critical positions, where it is reliable, it alerts you to what the systems are likely to do.

Knowledge is everything in this business and you have to stay one step ahead of your opposition. If you don't you become someone else's meal ticket.

I have been beating the value of this indicator into the heads of my students for years. Yet, strange as it may seem very few have taken much notice. Some people are just born lazy and wonder why they lose money in the market.

WaveTrader[tm] Trend Wave.

Just recently there has been much controversy amongst a few members of an e-groups room on the correct definition of these trend indicators. I call them momentum indicators and others believe them to be "cycle filters".

I've been giving this line of thinking some serious thought for a couple of weeks and my conclusion is mixed.

If we were to take the proposition that market movement is random, i.e., on any particular day the chances of the market going up or down are even, the same as a coin toss has the exact probability of heads or tails on every throw. Then none of these indicators would be of any use to us at all. On the other hand if market movement is indeed non-random and is the result of certain cycles at work in the "affairs of men" they have a genuine predictive purpose.

Where the problem lies in my opinion, is the assumption that cycles can be fixed. I think the market movement is the result of cause and effect and the resulting appearance that there are underlying cycles at work is a misnomer.

Trends form in markets due to supply and demand forces, I don't think you could argue that point. These forces, when they are out of balance, cause prices to rise or to fall. When these forces are only moderately out of balance the underlying trends are smooth affairs, as the pressure on buyers or sellers increases the volatility increases. Because the markets are dominated by speculators, who are influenced by the opportunities, a volatile market will overshoot fair value in either direction.

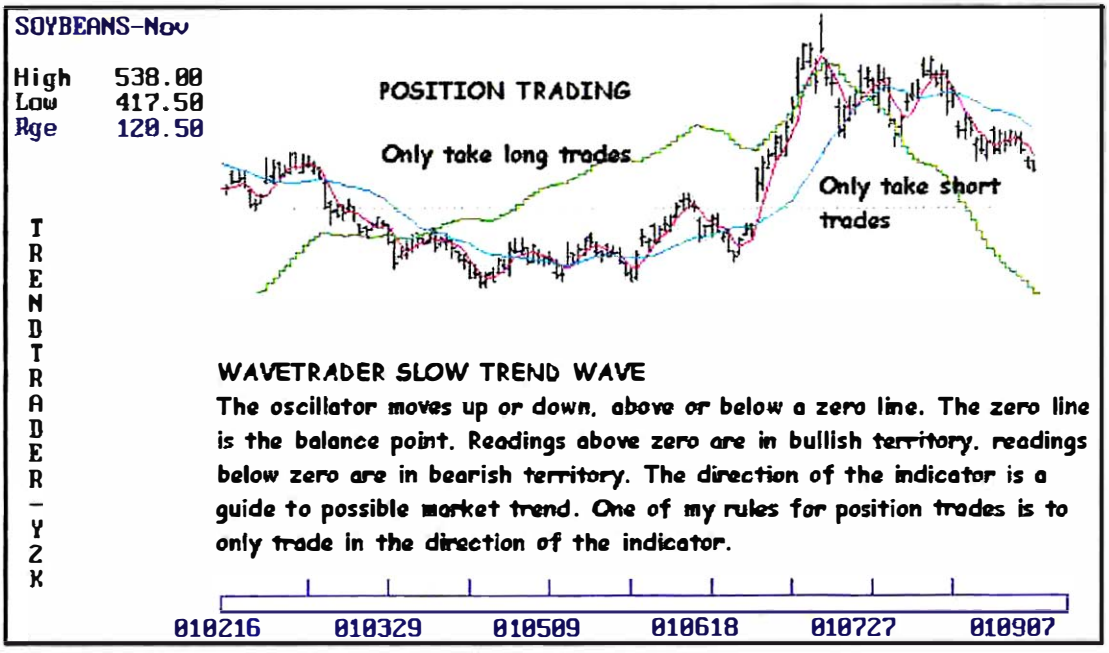
So in my opinion the trend indicators measure the state of the market equilibrium. If this is a fair assumption of their purpose they then have predictive qualities, i.e., we can learn from what they did in the past and make assessments about market position and direction in the future.

Trend indicators are still not the perfect answer because they are a "lagging" indicator but, you can create certain rules around their behaviour and use them to anticipate market direction. In short, they are better than just taking a guess!

The WaveTrader Trend wave is an indicator designed to incorporate an appraisal of the market price data taking into account, momentum, velocity and acceleration.

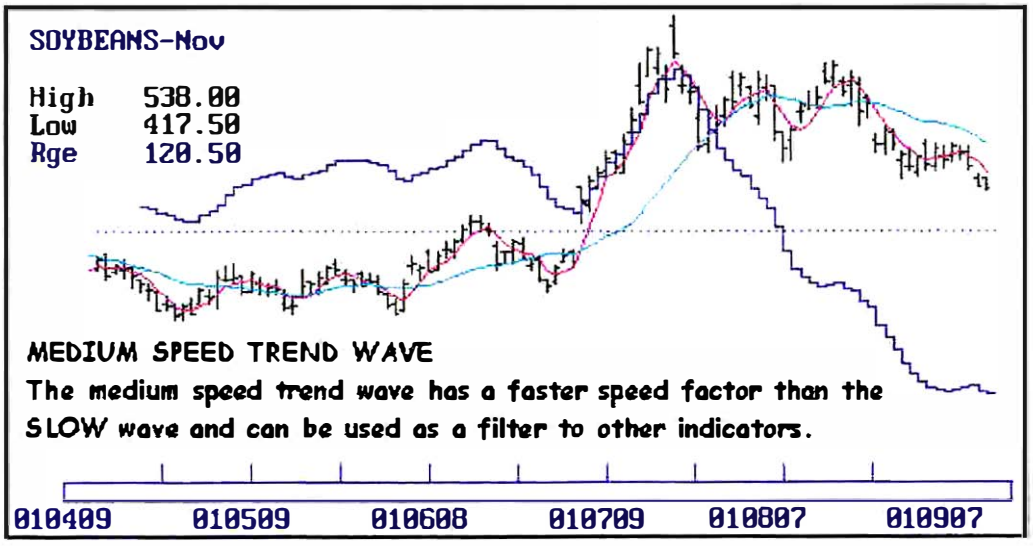
This indicator has several qualities I find useful for trading purposes.

1. **The Slow Trend Wave will hold direction throughout market corrections.**
2. **The Slow Trend Wave will often diverge with market prices prior to the culmination of a long market campaign.**
3. **The indicator reacts quickly to trend changes.**


SOYBEANS-Nov
High 538.00
Low 417.50
Rge 120.50
POSITION TRADING
Only take long trades
Only take short trades
TRENDTRADER-Y2K
WAVETRADER SLOW TREND WAVE
The oscillator moves up or down, above or below a zero line. The zero line is the balance point. Readings above zero are in bullish territory. readings below zero are in bearish territory. The direction of the indicator is a guide to possible market trend. One of my rules for position trades is to only trade in the direction of the indicator.
010216
010329
010509
010618
010727
010907

In this example the oscillator has been saying only take the short trades from the day after the high on the chart. When it turns up it could be signalling a new up-trend or it could just begin to diverge if prices were to continue down. Nevertheless this indicator is calling the future down right now.

So if I think this market has made a bottom, basis time and price, I would not be a buyer until the slow wave turned up.



The indicator is not perfect, but it does give you a mental balance. Maybe our resident bear has been watching this oscillator for the past month and a half.

GANN 3-DAY SWING CHART:

When you are having problems defining the trend you only have to get back to basics. In my opinion Gann's idea of trading the trend can be reduced to the market itself. There is no curve fitting in this exercise because it just comes down to believing in what you see!

Is the market going up or is it going down, pretty simple, no magic about it, same as there is no magic about trading, all you have to do is follow the signals and keep an open mind.

The problem with losers is they try and over complicate everything, they are so busy trying to understand the reasons for the market that they completely overlook what it is doing.

As traders we have no choice but to believe in what we see, we can think anything we like and tell the world about it, but in the final synopsis we don't know anyway, well we don't know for sure is probably a better way to express it.

Markets go through congestions and then run into trends, trends can be identified by breakouts, breakouts to new ranges, you must believe that the market is giving you a message when that happens, if you don't you better give up. These small trends can be broken down into all degrees of market movement.

If it wasn't for my long-term involvement with traders, or would be traders, I would never sit down and take the time to express all my feelings about trading for a living.
Why should I worry about anyone else?
That is a question I get all the time from sceptics, these sceptics are usually novices who have no idea of what trading is all about.

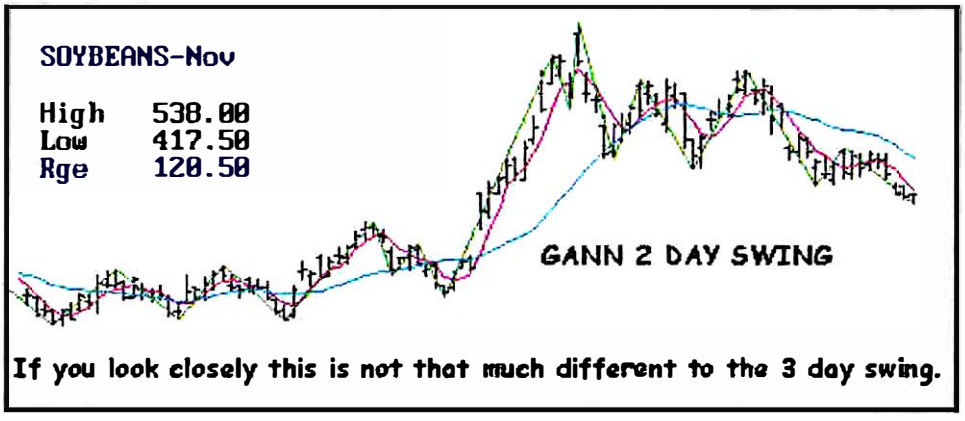
It's a funny thing but most people don't realise what a lonely occupation trading is; some days you can sit in front of the screen all day without taking a trade, that's why my e-groups room gives me the diversion I need to keep my patience.

Now having said that I better go on with the job at hand.

I have already explained the rules on how to construct a 2/3 day swing chart in a previous chapter but right now let's have a look at its trend following characteristics on a daily chart.

SOYBEANS-Nov
High 538.00
Low 417.50
Rge 120.50
GANN 3 DAY SWING
Now all we are looking at here is TREND:
If the swing is down the trend is down: If the swing is up the trend is up.
Combine this indicator with your others and believe what you see.

The point here is not to judge where to buy and sell, just to identify the trend.


SOYBEANS-Nov
High 538.00
Low 417.50
Rge 120.50
GANN 2 DAY SWING
If you look closely this is not that much different to the 3 day swing.

If you can believe that the trend is presently down in Beans then and only then do you know how to trade it.

If on the other hand you are a guesser you could take a position for the wrong reason.

Choice is your's, some people who hold themselves out to be experts are to lazy to look at the simple things.

You could make a plan around this indicator but I don't need to trade that way to make money, I like to trade only when everything is in my favour, if you do to, you had better think about all of this.

Do the hard yards and succeed or just get out of the business.

20 AND 50-DAY MOVING AVERAGE:

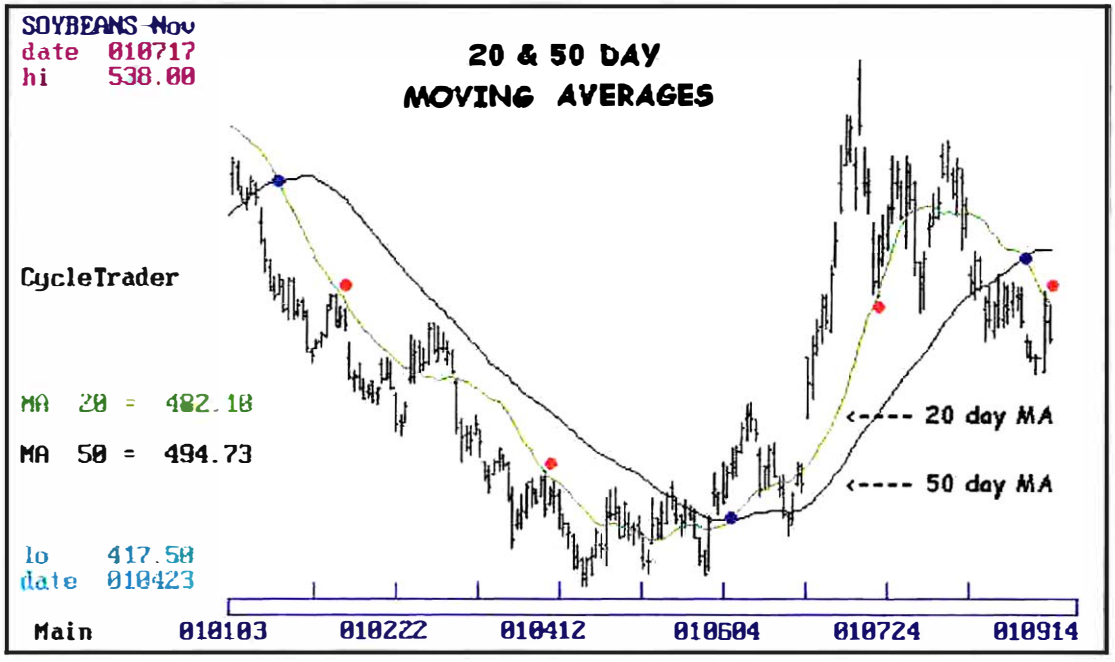
The reason I find the 20 and 50-day moving average of closing prices useful is that they act as a longer-term barometer of the market position.

I don't use them to trade from, I only make the following observations.

1. **Where is the current price trading in relationship to the averages, i.e., is the market above or below the average.**
2. **Are the averages moving up, down or side ways.**
3. **Is the 20-day MA above or below the 50-day average.**

The 20-day moving average is a psychological tool for many traders and trading systems. Many trend following systems use a 20-day moving average (or something similar) to place stop losses on positions.

It always pays to know the position of the 20-day moving average.



SUMMARY:

If you keep an eye on each of the indicators I have mentioned in this chapter you will not be faced with any surprises. You will know where all the trading systems are taking positions or closing out positions. This knowledge alone will help you make decisions on your short-term trading.

Chapter 13:

Open Interest in Futures Contracts:

Open Interest is the total number of outstanding contracts in the combined contracts of a market complex.

SOYBEANS (DAY)												
Link	Symbol	Month	Date	Time*	Open	High	Low	Last	Chg	Volume	OpenInt	DTE
	SX01	Nov '01	09/14/01	13:36:34	478'0	482'0	473'2	474'0s	-8'0	36396	89829	59
	SF02	Jan '02	09/14/01	13:36:34	484'0	487'4	480'2	480'6s	-7'2	3956	19797	120
	SH02	Mar '02	09/14/01	13:36:35	488'4	492'4	486'2	487'0s	-6'0	1810	18789	179
	SK02	May '02	09/14/01	13:36:36	489'4	492'0	487'4	488'2s	-6'4	1582	20006	240
	SN02	Jul '02	09/14/01	13:36:35	492'4	493'4	488'4	488'6s	-7'2	1784	12581	299
	SQ02	Aug '02	09/14/01	13:36:36	490'0	492'0	489'0	489'0s	-6'0	65	202	332
	SU02	Sep '02	09/14/01	13:36:36		482'4	482'4	482'4s	-4'4		8	362
	SX02	Nov '02	09/14/01	13:36:34	486'0	486'0	480'0	480'4s	-6'0	193	2487	424
	SN03	Jul '03						533'0y				666
	SX03	Nov '03	09/14/01	13:36:36		504'0	504'0	504'0s	-1'0		7	789
										Total	163706	

Individual contract months show the current activity; currently the November contract is the front month. For every buyer there is a seller. The total open contracts for soybeans is 163,706 on the 13th September 2001. This means there are 163,706 buyers and 163,706 sellers in the market. Open Interest reporting is a day behind.

The open interest tracks the TRADING POSITIONS of :-

1. **Commercials**
2. **Large Speculators (Non Commercials)**
3. **Small Speculators (Non reportable positions)**

Exchange rules require the commercials and large speculators to report positions weekly, this is known as the COMMITMENT OF TRADERS REPORT.

1st IMPORTANT POINT:

Open interest can only rise when new sellers enter the market.

Therefore when open interest increases we have more willing sellers, when open interest declines the old sellers are buying back and are not being replaced by new sellers.

Tracking the changes in open interest provides clues to the future trend.

COMMITMENT OF TRADERS REPORT:

Soybeans - Chicago Board Of Trade
Reportable Positions As Of 09/10/01

Non-Commercial			Commercial		Total		Nonreportable Positions	
Long	Short	Spreading	Long	Short	Long	Short	Long	Short
25,480	15,265	26,020	63,081	91,400	114,581	132,685	47,354	29,250
Changes From 09/04/01 (Change In Open Interest: 4,665)								
-1,902	1,064	-132	5,388	-4,244	3,354	-3,312	1,311	7,977
Percent Of Open Interest For Each Category Of Traders								
15.7	9.4	16.1	39.0	56.4	70.8	81.9	29.2	18.1
Number Of Traders In Each Category (Total Traders: 310)								
113	68	84	87	76	252	200		

(Contracts Of 5,000 Bushels) Open Interest: 161,935

This report was issued for the 10th September 2001.

COMMERCIALS:
Long 63081, Short 91400 = Net Short 28,319

NON-COMMERCIAL:
Long 25480, Short 15265 = Net Long 10,215

SMALL SPECULATORS:
Long 47354, Short 29250 = Net Long 18,104

Each week we can compare the new figures to see if there is any major shift in positions relative to changes in price.

This week the commercials reduced their short positions, but this may have had to do with the expiry of the September contract.

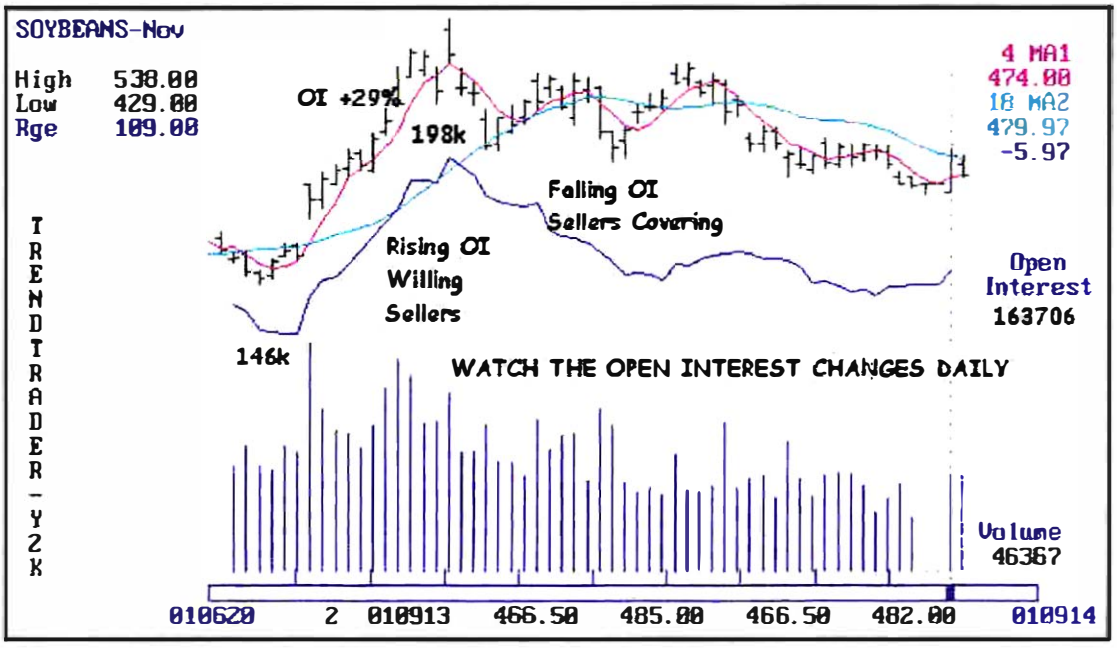
The next report will be available in a couple of days so we can analyse it when it is released.

PERCEPTIONS:

It is perceived that the COMMERCIALS opinion of the market is more likely to be correct over the large speculators and then that of the little guys.

Therefore if COMMERCIALS continue to sell into rallies they don't think the market will run far. If they reduce short positions then they obviously think prices are to low.

Large increases in open interest in a rising market will increase volatility when the final top is reached.



To really utilize open interest as a trading tool one needs to study the seasonal tendencies of the COMMERCIALS.

THE COMMERCIALS:

The commercials are the backbone of the futures market, without the product to sell there would be no market. If you already own something you can afford to sell it at any price and you are only locking in a price. The higher the price relative to your cost then the more they are prepared to sell forward.

Commercials own the carryover stocks whereas the speculators own nothing but paper.

So you can see that it is always a good idea to keep a close eye on the mood of the commercials.

THE SPECULATORS:

Speculators seldom take delivery of anything, all they do is guess whether prices will go up or down and trade the paper accordingly.

From time to time the speculators get caught the wrong way around and the commercials will catch them in a "squeeze".

Open Interest movements will alert you to the possibilities of a potential "squeeze".

PERSONAL OBSERVATIONS:

Ever since my early days as a full time trader I used to watch the open interest figures for any futures contracts I traded.

At first I did not understand the implications of Open Interest until I read a book written by Larry R. Williams, back around 1981.
"How I made a million dollars last year trading commodities", [c] 1979. Buy it, it is well worth having in your library if you take the time to read it.

Since then I have noticed a great number of people haven't got the message on the importance of Open Interest.

One of Larry's tips was to watch for a significant drop in open interest over a two day period, especially when a buy signal was about to present itself, i.e., the market could be oversold or coming off a bottom; this would equate to commercials covering or smart money (large speculators) taking profits.

The same situation (two day drop in Open Interest) could apply at the top of a market campaign in a blow off situation. It won't be the commercials covering as they don't have to, it will be the speculators who went short too early and the pain just got to much for them.

Then there is the situation of rapid changes to open interest when the market is stuck in a trading range. If OI rises then the break will most likely be out of the bottom. If OI declines then the break will most likely be out of the top of the pattern.

Pretty simple! I am a believer and it works more often than it fails, when you combine all the other tools I have with it you are indeed "Trading with an Edge".

Don't make the mistakes most do and neglect any information available to you.

Trading is a business, it requires hard work to remain successful, if you think otherwise get out of the business and save yourself the grief. I don't know how many times I have said this so far, but it is the best advice I could give anyone.

Please go to :- APPENDIX to this chapter at back of the book:

Chapter 14:

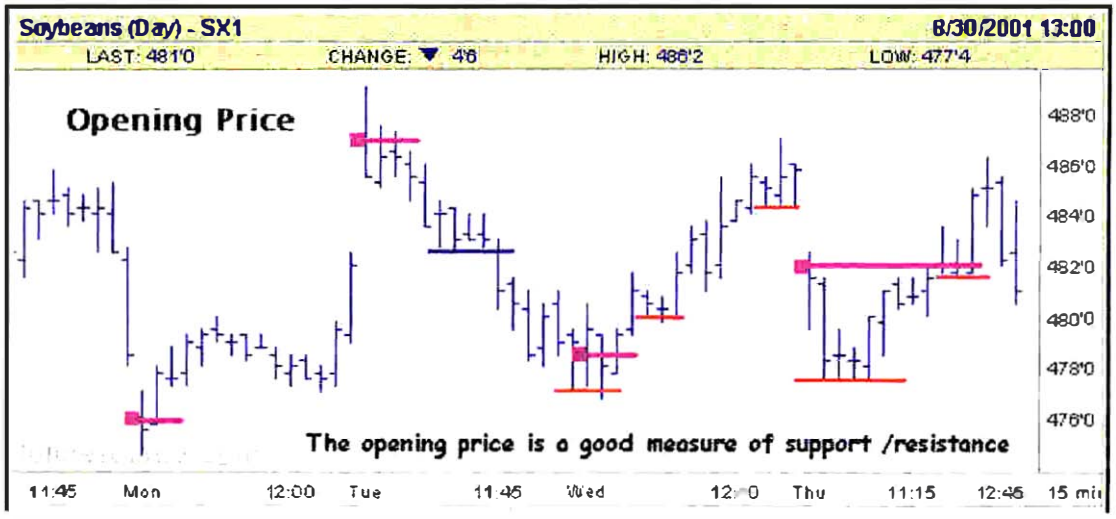
The Opening Price, Trend and day by day:

The opening price tool is one of the best-known secrets among professional traders.

The opening price sets the scene for the day, statistically it will mark the high or low for the day 50% of the time, sometimes more often in trending markets.

Professional traders have rules on how to trade off the opening price. You need to learn them so you can evaluate what is going on behind the scene when you monitor a 1-minute chart or 5-minute chart of the markets progress.

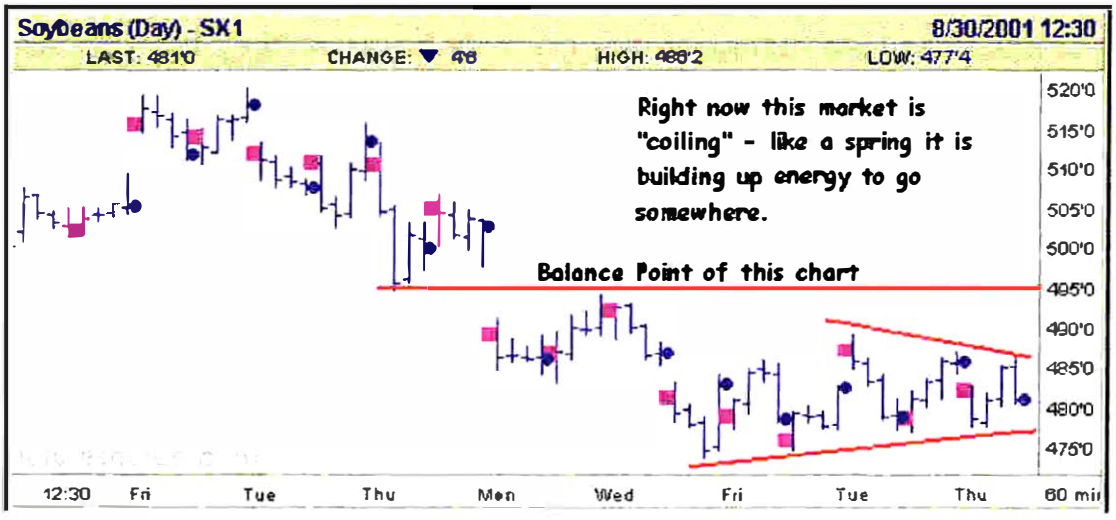
Let's have a look at a few charts and then discuss them:



This is a bean chart stuck in a 5-day congestion in a down-trend. From the pattern you can see that it is still contracting, i.e., it is making lower highs and higher lows. The opening price levels are marked in purple.

On the prior 3 days before today the market opened in close proximity to its low or high for the day. On the last day, today it opened with a gap and traded down to the 4 bottoms at 477^4 and then rallied into the last 45 minutes of trading before a sharp sell off into the close. The close was approximately back to the balance point and slightly lower than the open.

Looking at the bigger picture you can see a wider perspective of what is happening right now.



When you build up a picture of where you think the market is going to go the OPENING PRICE becomes very important indeed.

My perspective is this:
The trend is down and today's close is below today's open and we are slightly below the balance point of the past 2 days. We are way below the balance point of the present trend move, i.e., 520 down to 473^4 so we are sitting in a weak position.

The past 3 days trading have produced a wedge pattern and by normal charting implications the trend should continue down.

Whether it does or not is another matter, still that is the best analysis I can come up with.

So how am I going to trade it?

1. **I could wait for it to breakout, i.e., wait till it goes above the wedge high or below the wedge low.**
2. **I could wait and see where the opening call is and buy or sell it based on the direction it moves in relationship to today's close.**
3. **I could let it open and then buy or sell breakouts in the direction it is moving relative to the new open.**
4. **I could also reverse position if it starts off one way and then reverses back across the opening price.**

These are the choices, only a trained pattern reader can make! There is no guessing that some system will get me in the right direction and I can sit back in my armchair and reap in the money.

Trading is about objectivity and before you get your "stripes" you have to understand these things.

Most novices lose money in the markets because they have no idea that they have a lot of options and they can adjust as they go along.

Each minute the market is open it is telling you a story, it is sending out messages of what the traders (money flow) are thinking.

It all starts from the opening print.

THE OPENING PRINT:

Before the market opens all the traders have an opinion of market direction based on the deck they are holding.

If you don't know what a traders DECK is then I will tell you:
Their deck is the orders they have to execute either on the open or at market followed up by stop orders.

They know what they have, we don't. So you can expect to find out where the market sentiment is based on the opening print.

Now either one of four things will happen:

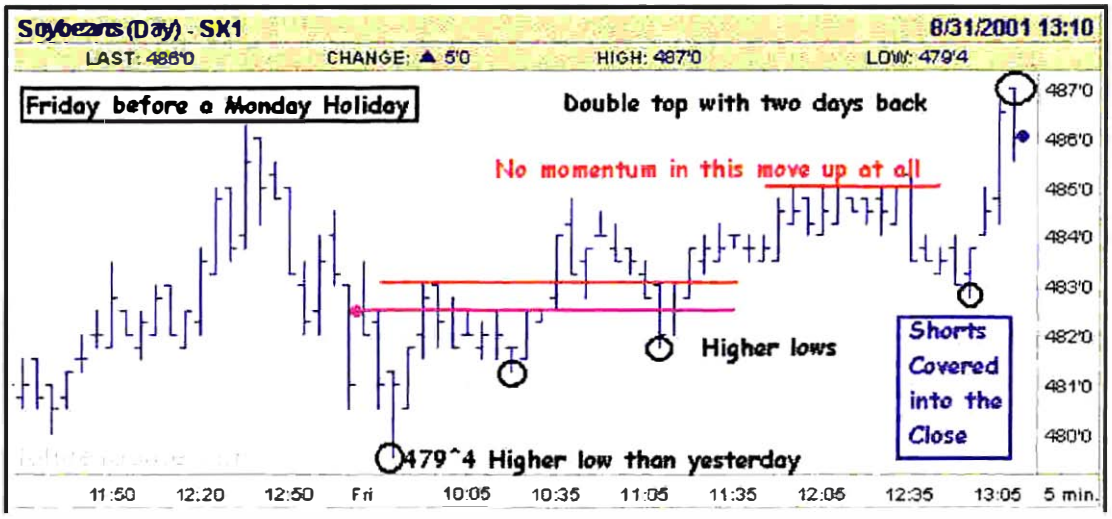
1. **The market opens and trades down slightly as the buyers soak up the sellers and exhaust them.**
2. **The market opens and trades up slightly as the sellers soak up the buyers and exhaust them.**
3. **The market opens at an artificial price where there are no buyers and runs off to the downside and keeps going until it finds support.**
4. **The market opens at an artificial price where there are no sellers and runs off up until it finds some sellers and resistance.**

Two possibilities occur as the open is either the low or high for the day or the market is about to exhaust one side and then forge ahead the other way.

Current market sentiment, the position of the street and the trade has a huge influence on what will happen.

I am going to take one day at a time in this chapter and explain what I see happening, that is the easiest way to explain my thoughts.

Friday 31st August 2001 – Holiday on Monday:



Today was a non-event as far as momentum goes, there was a potential sell off the open that failed to go anywhere, then a HOOK that took to long and went nowhere, all the breakouts were short lived. The crossovers all day (overlaps) indicate no momentum at all in the move up. After the 1st hour it would have been apparent to me to stay out today. Once the market crosses backwards and forwards across the opening print twice I am out for the day.

The interesting thing about today, it was a counter trend day, i.e., the expected trend is down but the market is in a tight congestion and moved up to the higher end of the wedge, it even threatened a breakout when the shorts covered for the long weekend. Right now this market is non-directional so it would be wise to let it show its hand before making any decisions about its future. This wouldn't stop me trying to scalp it if I saw the right patterns. The best one today was the breakout at 485 running into the closing zone of the day. Sometimes this is the last chance to get your money back when you get a day like today. But I doubt I would have taken the trade with all the overhead resistance of the wedge in the larger picture. Also the average daily range (from high to low) in this contract has only been 8 cents in recent days which didn't allow much scope.

HOOK TRADE:

The opportunity for a hook trade is when the market opens and makes a sharp move in one direction and then reverses back across the opening print. If the market breaks back through the opening range you can go with it, this is called a hook. Many times the market will keep running in the new direction. The thing is that it should do it in the 1st 20 minutes to indicate strength of trend. If it takes to long and dilly dallies around forget it.

TEST OF THE OPENING RANGE:

The market opens makes a sharp move in the direction of the expected trend then comes back to test the opening range and fails. You can then take a position in the direction of the first sharp move as this will probably end up being the trend for the day. The market still needs to do this very early in the day to give you the signal.

TIME IS IMPORTANT:

The time factor for trading effectively off the opening print is very important. Traders will get a mindset within 10-20 minutes of the open and try to push the market one way or the other, somehow the market seems to find the path of least resistance. All you have to do is believe what you see and go with it.

TRADING THE OPEN & 1st 20 MINUTES:

Whichever type of trade you take, buy the open, sell the open, buy the retest of the open, sell the retest of the open, buy the hook or sell the hook you must keep your risk to a minimum. If you are wrong you don't do any harm to yourself. On the days that you are right you make a lot of money.

PUTTING A PLAN TOGETHER FOR THE OPEN:

If you have a plan in your mind that is well thought out you can often have the wrong opinion and still make money, if you remain flexible.

Listen to the market, don't insist that it do this or that. Good traders just follow the market and let it make their decisions for them.

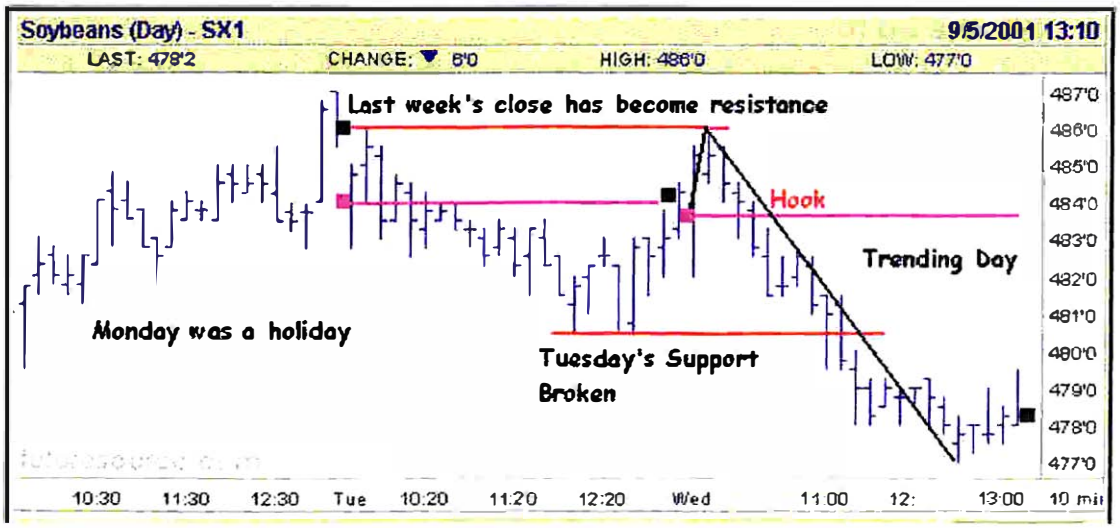
Losers are those people who try and force their will on the market with dreams of massive profits already in their head.

Let the big money do that and just climb aboard their coat tails for the ride. Futures markets have some huge players who can push a market in one direction or another, they will only be able to keep the pressure on for so long, as when they try and take profits they send the market back the other way.

You should approach the market with no expectations of profit, only expectations to preserve your capital if the market does not do what you expect it to do.

You must always adjust as new evidence presents itself. If you don't you will become some other trader's meal ticket.

Tuesday and Wednesday 4/5th September 2001.



Tuesday after the long weekend was a quiet trading day with a small range 5^4 cent. Today, Wednesday offered more opportunity when the market reversed off yesterdays high and broke back through the opening print.

The beauty about this trade is that you are trading from the top of the wedge in the direction of the overall trend pattern. The more often you can make trades in the direction of the main trend the better off you will be.

The question now becomes, "Can this market break out of the congestion area it has been in for the past two weeks"?

Today's low is 477 and below that we have the pivot low at 473^4.

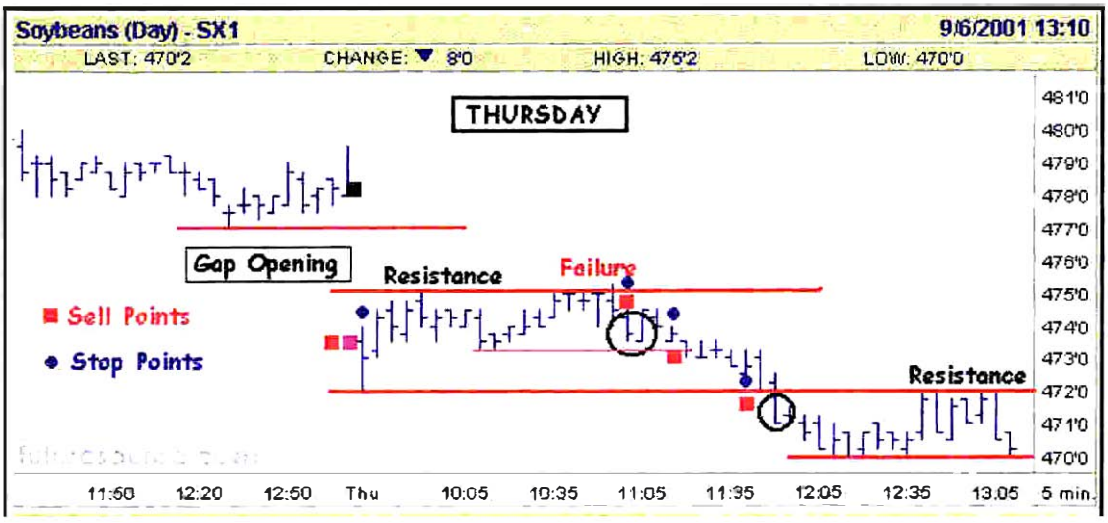
Where I see a chance coming is if the market can "gap" through the low of today and re-test the 473^4 low and break through.

You need to bear in mind that I did not have any solid time and price cycle analysis for the 473^4 low, so I don't think it will hold if it gets any pressure on it.

6th September 2001

I want you all to bear in mind that I am writing this chapter as the market moves from day to day, that is the only way you can appreciate the thought process of a trader.

There would be no point writing this book in hindsight, as it would serve no purpose whatsoever.



The GAP down opening today eliminated any thought of buying and anyone with a sell order below the prior 473^4 low was sent short.

Personally, I would have been stopped out if I had been trading today, but I was so tired out last night I went to bed an hour and a half before the market opened. Market opens 12:30am my time.

Nevertheless there were several other opportunities to re-enter short.

1. **The failure to break back up just before 11.00am.**
2. **The break of the open and 10:10am low at 11:20am.**
3. **The break of the opening range low at 11:50am.**

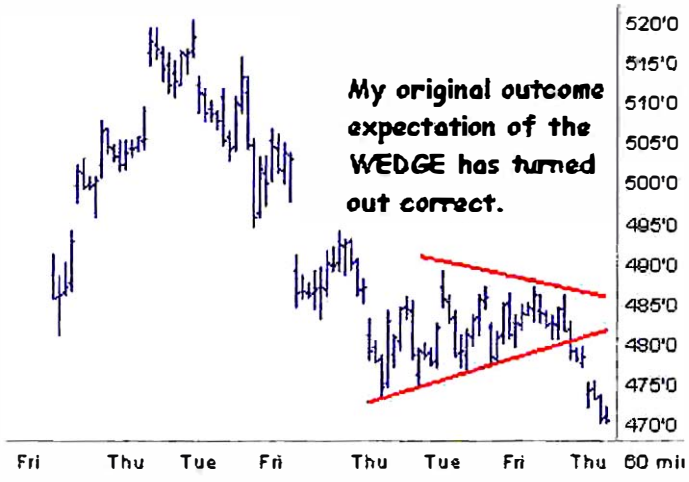
The re-test of the opening low, half an hour before the close, spells resistance and a lack of any buyers. So the best guess right now, is the market keeps trending down.

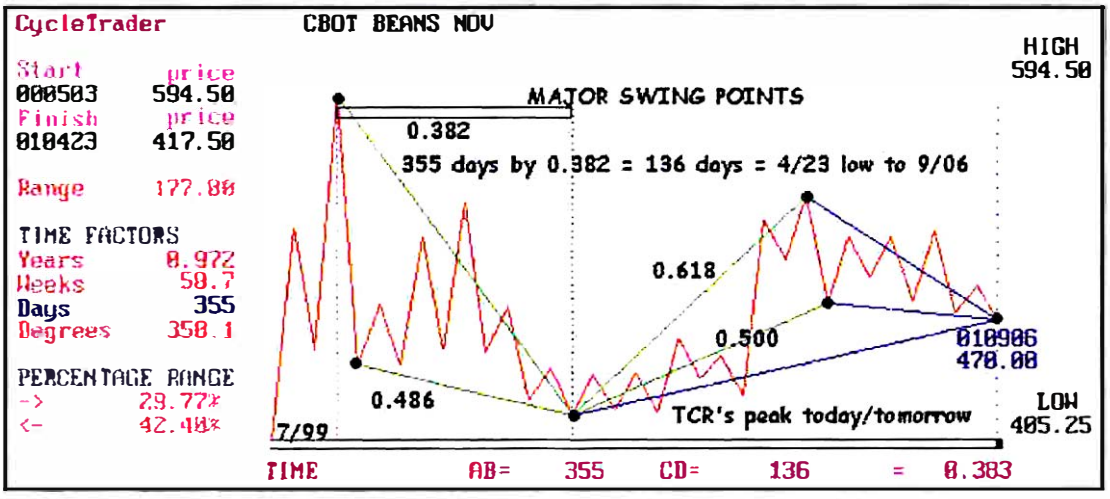
Before we make this assumption though it is now time to do some work as this is a new low from the 538 high in July.

We need to check the big picture for any time and price that maybe present, which could act as support for a reversal of trend.

1. **Check any long-term, medium-term and short-term TIME CYCLES.**
2. **Check any PRICE relationships for waves of similar degree.**
3. **Check any VIBRATION angles for signs of support.**
4. **Check any PERCENTAGE CHANGE relationships.**
5. **Check the Trend for Oversold signals.**

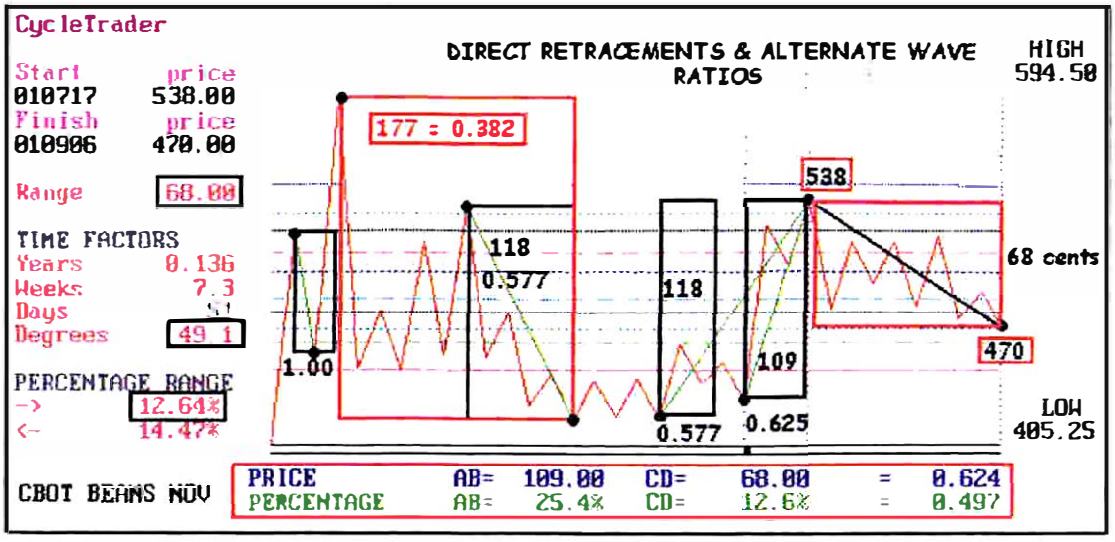
Every time a market makes a new high or low I go through this exercise.





TIME CYCLES TODAY:

Now the market trend has a problem. There is a RHYTHM of Time Cycle Ratios from major swing points over the past 2 years and the recent 4 months. This type of signal is a RED ALERT that a change in trend IS POSSIBLE. Not guaranteed but possible.



PRICE RELATIONSHIPS TODAY:

The whole structure has important RATIO relationships, this type of situation when it coincides with TIME is another RED ALERT that change in trend is possible. Not guaranteed but possible.

The major one I see is the 0.382 with the last major bear market.

Now the question is what do we do about it?

1. **If we are holding a short position we move the stop hard in.**
2. **We wait and see what happens, i.e., we need a confirmation.**

OR

3. **We could buy with a tight stop at 469^4.**
4. **If we buy we place a stop to reverse short on a break of 469^4.**

My conclusion of these analyses is:

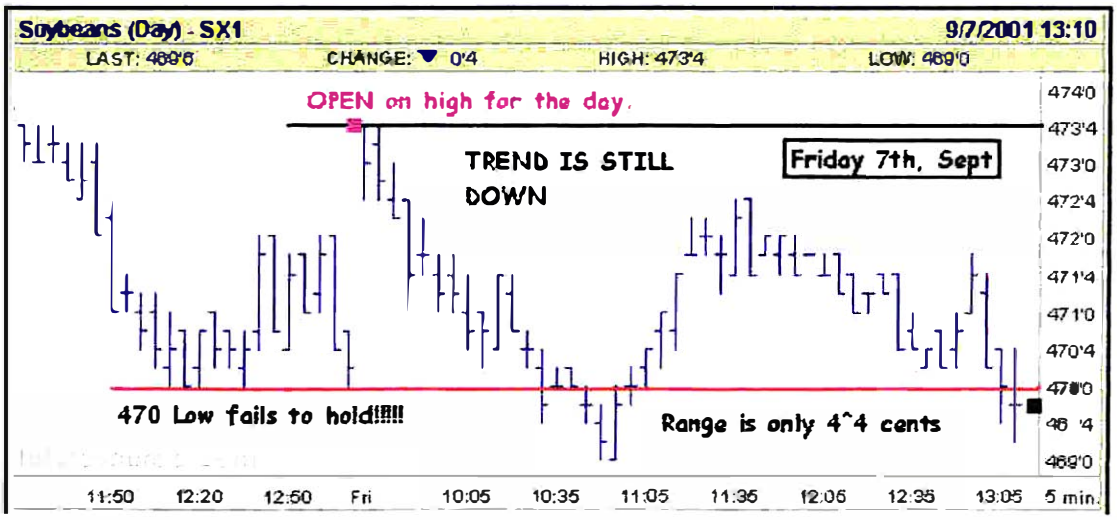
If the market breaks 470 it is heading much lower, if it does not break 470 and reverses trend it is possible that it will be the beginning of another medium term trend UP. Experience tells me that we have come down 68 cents from July so the minimum UP is 26 cents (0.382 retrace). So that is all I need to know at this stage. I will adjust as I see more each day.

What else has happened as we made this new low?

1. **We gapped into it, (could be an exhaustion gap).**
2. **The market cleaned out the weak longs.**

Time to wait the night session is trading and 470 is still intact.

Friday, 7th September 2001



Today we had our questions answered about how strong the support at 470 was!

Market opens at 473^4 on its high for the day and failed to go up. What's that mean? Means that there were not enough buyers there to keep it going!

The market finished the day weak so the trend is still down. Now my mind is clear, I will be looking for lower levels overall.

In the near-term all my trading decisions will be based on current daily ranges, i.e., the 473^4 and 469 range. Whichever way it breaks out of here I will intra-day trade and scalp it.

There are numerous price supports down below 470 very close together so there is no point trying to take a position trade at this time.

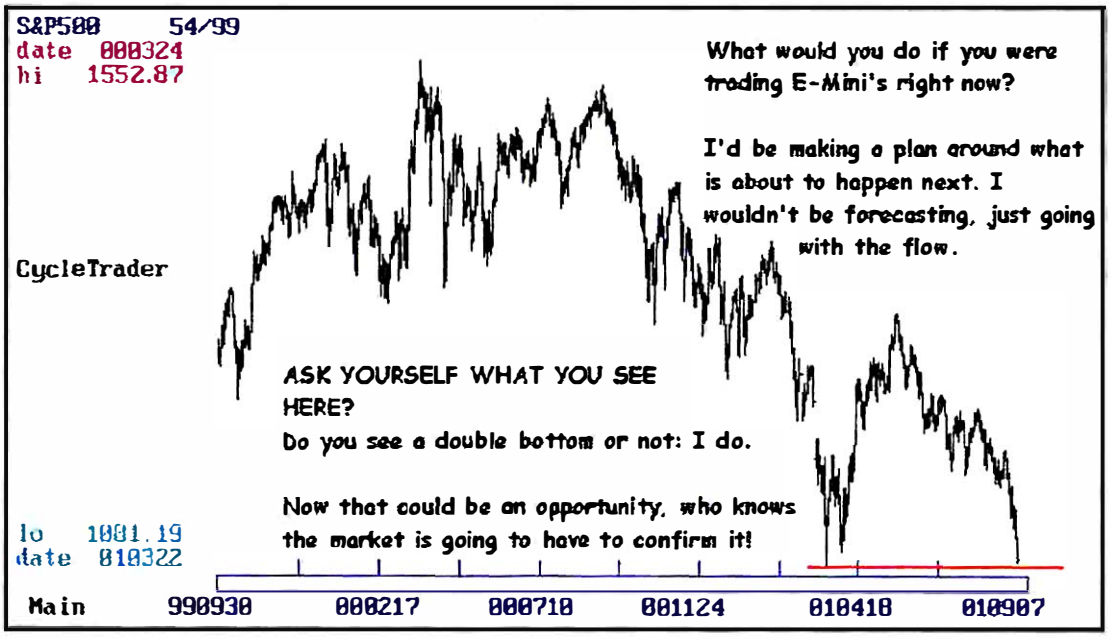
Sunday, 9th September 2001

I am getting distracted from Beans by the S&P500 because while I have been writing about the Bean market the S&P has been in a confirmed sell off. Friday, it reached a double bottom with a severe low it made in March this year.

Maybe we can digest a little and really let you appreciate what is happening in my mind.

I am always looking for OPPORTUNITY that goes with PROBABILITY, a few weeks ago I made an assessment of the US stock market, the S&P500 in particular, and my observations said to me the trend was down and it would continue on until it tested the March low.

Well it has continued to the point that it is now at MOB (Make or Break). Let's have a look at a chart.


S&P500 54/99
date 000324
hi 1552.87
What would you do if you were trading E-Mini's right now?
I'd be making a plan around what is about to happen next. I wouldn't be forecasting, just going with the flow.
CycleTrader
ASK YOURSELF WHAT YOU SEE HERE?
Do you see a double bottom or not: I do.
Now that could be an opportunity, who knows the market is going to have to confirm it!
lo 1081.19
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Main
990930
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So it now offers more OPPORTUNITY than beans' as the beans are an unknown quantity at this time.

As a trader I am always on the lookout for opportunity, if you want to be a trader you need to follow about 3 or 4 markets and just pick the eyes out of them.

What is happening here at the S&P500 test of the March low?

Well to find that out you need to know what happened at the March low and the May high before the market started coming back down.

When I started this chapter I had no idea where we were going, like the market, but I am going to continue and publish whatever comes out. Maybe someone will learn something!

Now have a look at the chart and tell me what you see? Mark Douglas once asked me the question, "What do you see when you look at a chart Bryce"?
I replied, "I am not sure I understand the question". So he replies, "you only see what you have trained yourself to see". I agree.

So if we look at this S&P chart what do we see?

I SEE:

A market in free fall, testing a known major low, the market mentors are all expecting a bounce or change of trend. The press, the brokers and everyone I know is predicting support here.

Makes you worry doesn't it?

The trend is hard down but the time before when the S&P500 hit the March low it had all sorts of time and price to give the bounce back up credibility. Also at the time the market commentators considered the declines just a market phase, they had no idea that we were in any danger of a recession. The picture has changed and with Greenspan in charge and dropping interest rates every Fed meeting it seems that all the outside help is not working!

So it leaves you in a situation where you have to say to yourself – "Is this the big one again", i.e., are we about to really cause some grief to the public or not.

I'd say it is a 50/50 situation personally and if I had to choose I would say the public are about to get the sharp end of the stick.

Technically I would say that before that happens we could get a rally based on technicals and the public will be saved until such time as their buying power runs out.

As I have no vested interest in what the S&P500 does I have no "mental" weakness about its direction, all I can do is trade what I see it does and hope I am right.

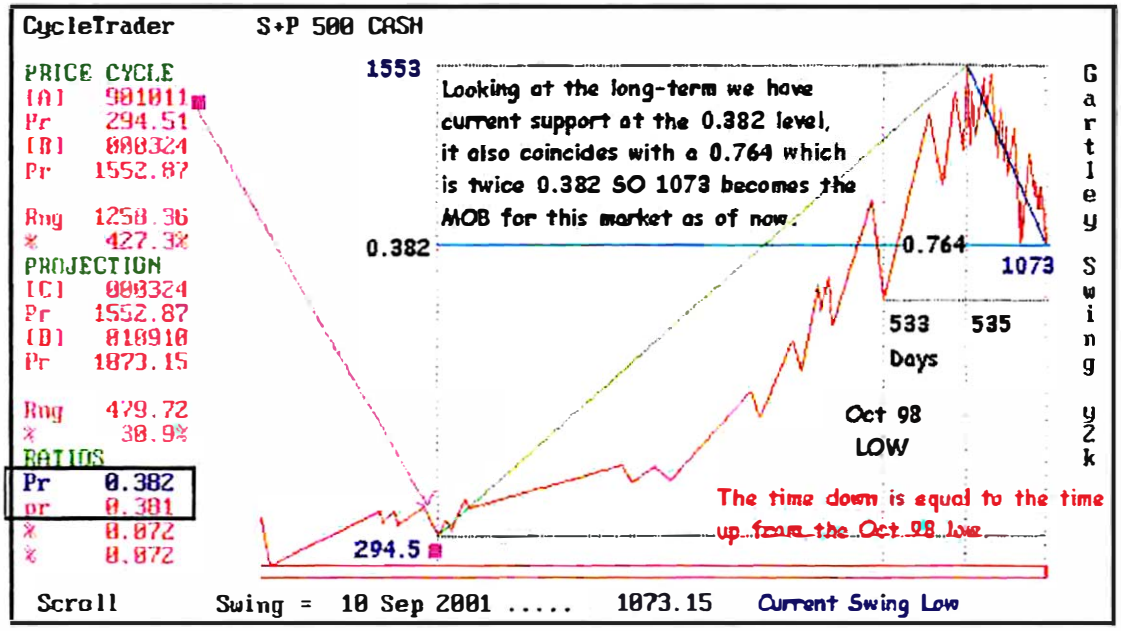
So that gets back to trading knowledge and risk control. Just the same if it rallies for a few days and then collapses I will be a seller. If any rally shows strength I can be a buyer.

There is nothing so easy as selling into a market that has no buyers. That is the speculator's dream. Also the same applies to buying into a market where there are no sellers.

Still we have to wait and get the right opportunity. Maybe it will happen quickly, maybe not. There is some support here!

Monday, 10th September

Now I have to go through the TIME & PRICE exercise to see if I can find any good reason why this low could become a major support.



Interesting thing the first signs of total capitulation are starting to appear in the Bloomberg reports. Punters are starting to accept that the market will keep going down! When that is happening the market is likely to rally. The reason is that most of the losers have sold out and the ones left won't sell out until they are completely broke, so they don't become a threat.

The real issue to me now, is how this market contains the new low. S&P cash 1073 is now the MOB (Make or break) level to rotate our trading around. Who cares what S&P does, 1073 is our base of reference for the immediate days ahead. When it resolves itself then we can find another MOB reference.

This is all I do, move my reference point of support or resistance along with the market action. Then I just trade the short-term pattern for what it is telling me. As long as I keep a medium-term focus and keep adjusting it, I won't run into any surprises.

All that happens in the end is we work out some major campaigns that all the "arm chair experts" think would have made them rich, if they had been on it.

Funny thing! I can recall everyone I knew trying to pick the top of the S&P500, week in week out, while it was going up from 1990 to 1994. In 1994 the S&P made a significant top and a very fast decent. In time the market worked its way back above the February 1994 high and after that I stopped trying to pick tops before they happened, now all I do is INTEROGATE the technical aspects of the time and price as the market moves along, I adjust my thinking around each new market pivot and just try and flow with it.

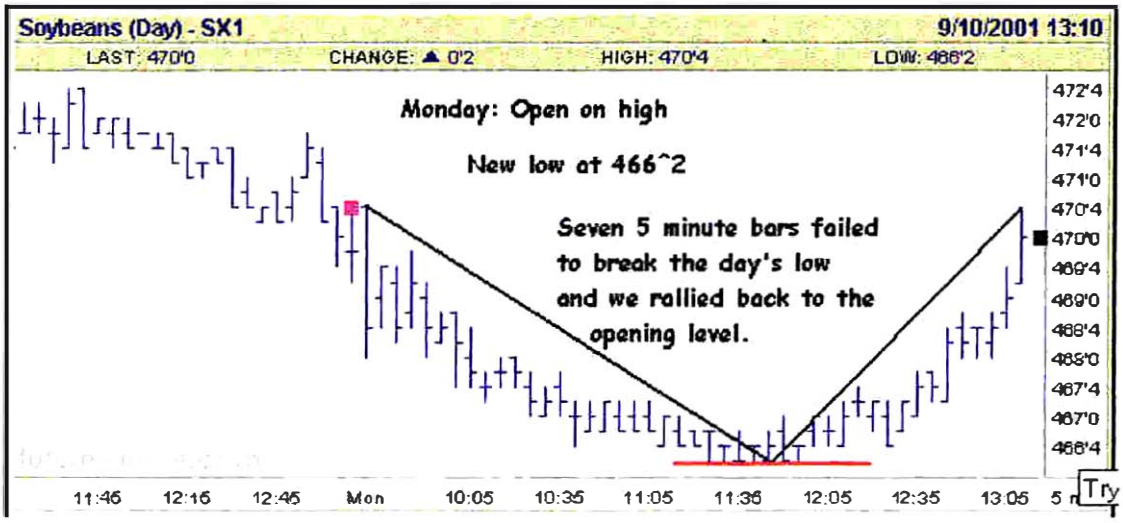
To have a fixed view without a crystal ball is dangerous to your trading account in today's fast moving markets and electronic transfer of information, things can change too quickly.

You cannot afford to be wrong for an hour sometimes!

NOW ANOTHER LOOK AT BEANS:

Monday, 10th September 2001, today the price decline edged lower to 466^2 and rallied into the end of the day. Comments are on the chart.

Situation right now is the trade is awaiting an exchange report and is very quiet, you can see by the tight ranges.



What the report contains is not known, people are only guessing, still the trend is down and we have not hit any price retracement geometry to give me any clue that 466^2 is important.

I have a strong time cycle coming up on September 17th, next Monday, but I can't quantify its importance right now.

Whether I am right or wrong it looks to me like the market will be a sell on the open again Tuesday. If it isn't no harm done if you keep a tight stop.

Right now the night market has closed at 471 with a small range overnight of 471-468^4.

So Tuesday's open is only 3 hours away and all we need to get is the opening call and adjust accordingly.

I have to believe in the trend right now, I can't change my position until I get proof.

We will see.

Tuesday, 11th September 2001
NEW YORK WORLD TRADE CENTER DESTROYED:

I was sitting here waiting for the markets to open and WHAMMO over the news services comes the news, 2 commercial airliners have been deliberately crashed into World Trade centre towers. Next the Pentagon is attacked. Next the towers collapse! People were getting killed left right and center, 300 firemen and 100 police ran into the buildings and area to help and then they ended up in the destruction and collapse of the buildings.

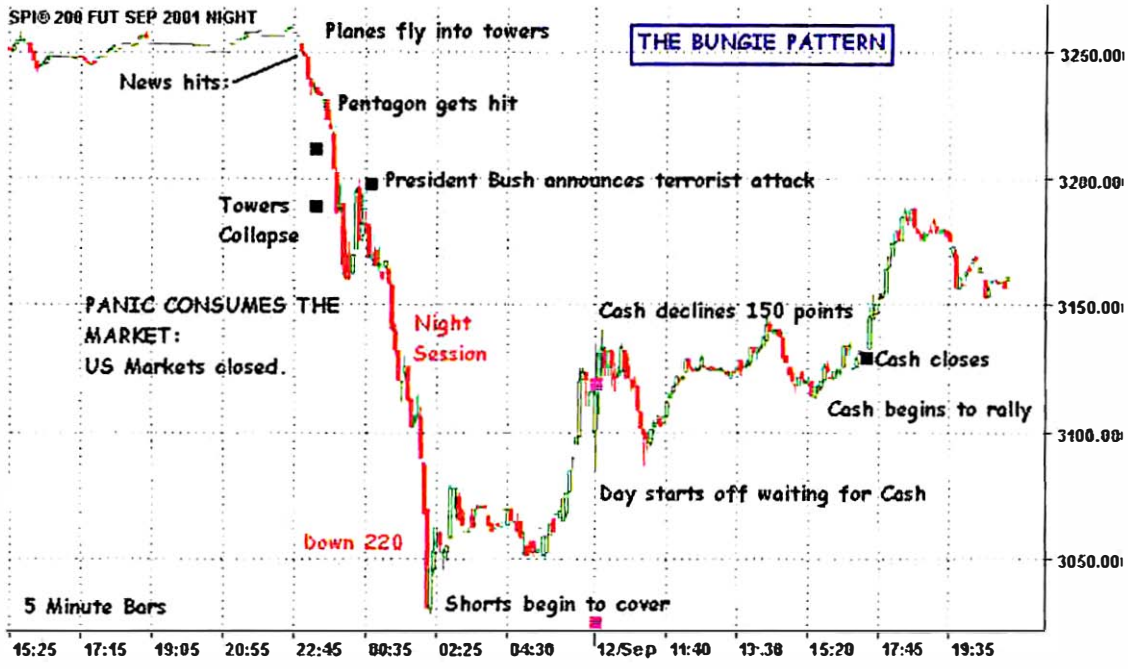
Horrible situation as there are an estimated 50,000 people in the buildings.

Just goes to show you how important your news service is to you. KEEP INFORMED!

When the news hit the street and the US markets were suspended for the day everyone looked at overseas markets as a means to try and hedge their positions. President Bush comes out and explains it is terrorists and they will get even when they find out who is responsible.

My local market took a pounding, it looked like a BUNGIE JUMPER for a while , didn't surprise me but I know they have to square the positions later, that is why you can always expect a rebound.

I am not sure just yet if US markets will continue down but it is interesting what happened in Australia as a result of the terrorist attack. The futures dived 220 points in the night session and have since rallied over a 120 points.



The last time something like this happened (SHOCK I MEAN) was in 1991 when the desert storm war broke out. Although the shoe was on a different foot at that time it certainly distracted the market from the downtrend it was in.

Right now the trouble is in the USA and the markets are deciding which way they will take all this new information. The markets have been closed for a day and will be closed tomorrow.

To start with all this information created a PANIC on overseas markets, today they are coming back on a rebound.

Right now I am seeing statistics of the market traders who were in danger due to the destruction of the towers. These are the guys with offices up on the higher floors, there were some big hitters up there that couldn't have possibly got out.

Now we need to see what the market does as a result. It may shake off the bearishness for a while because some equilibrium has returned, while the market has been closed. There probably will be some adjustment as outstanding positions have to be "squared", but this episode may enthuse the public somehow, as all of a sudden Americans are united again.

A couple of problems have appeared though and that is the airline and insurance companies. These could be in big trouble, also the impending recession. I am sure most people will not want to be flying anywhere if they can help it for a while. New York is out as a tourist spot for a while.

Personally I think the "Bungie" might be with us for a while.

NEW YORK has been considered the heart of the world financial center's and as of now it is crippled. If Chicago can take the brunt of the responsibility maybe we can rally out of here. If the fund managers and the public see this situation as a drawback to doing business, then we are on a downer.

How the public and traders will take it is the unknown question right now.....

The world community is working hard to identify who did it.

Morning of Thursday 13th our local market has finished stronger over night closing at 3183, the close the day before this happened was 3248 and the "bungie" low overnight was 3028.

News this morning is that the FED has pumped the money supply $65 billion over night. This has worked at supporting the markets before.

US Stock Markets are still closed:

Thursday, 13th September 2001

Chicago markets open for business, no trading in stock indices.

There is a lot of confusion about who is holding positions in some markets.

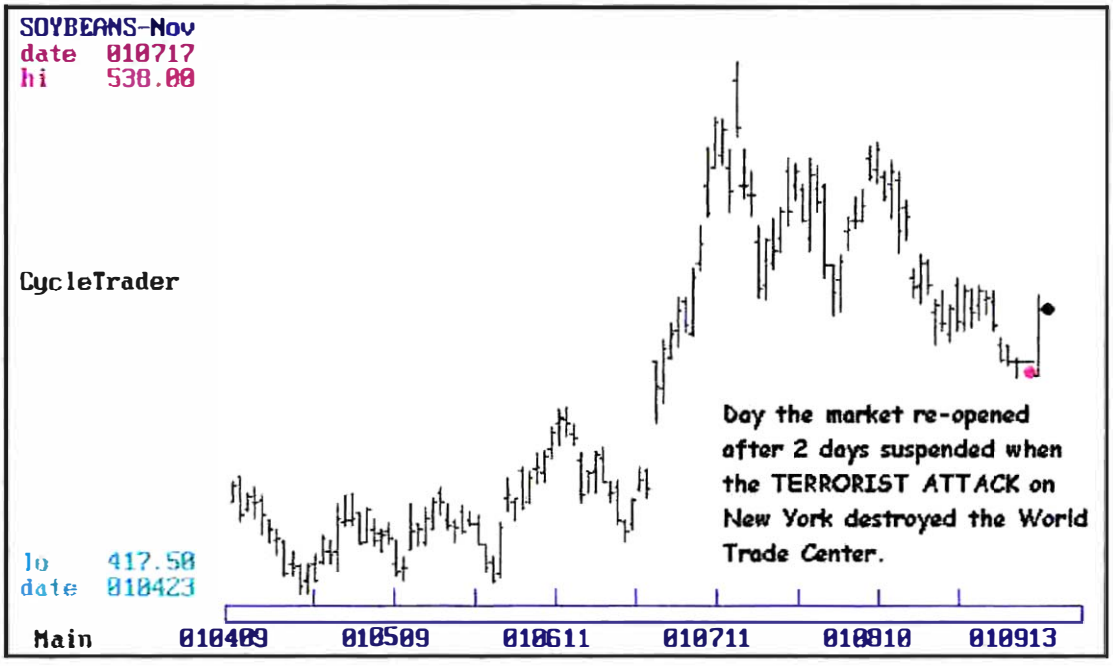
CBOT issued a directive: Effective Immediately:

Kilo Gold and 1,000 oz Silver are trading at the CBOT. However, only market orders to liquidate existing positions will be accepted. We will accept these orders on a "not held" basis only, which means that brokers will only be liable for losses caused by willful misconduct. All working open orders (GTC's) will be cancelled. New orders will be checked for open positions and liquidating orders only will be sent to the pit.

I am out of the market and have no intention of trading whilst these uncertain conditions exist.

Soybeans: Thursday, 13th September 2001

The November Bean market opened a quarter cent off Mondays low and rallied immediately. Moving progressively up throughout the day. The crop report due the other day has been delayed until tomorrow. Maybe once the crop report is released and things get back to normal I will consider trading again.



News is that over 5000 people are missing or dead as a result of the destruction of the World Trade Center in New York. There is still no confirmation that the US share markets will begin trading Friday or next Monday.

New York commodity futures pits were contained in those buildings so they will be suspended indefinitely. Some people who traded those markets from New York have been suspended indefinitely. The world balance has changed, will these people who have gone missing be replaced immediately, not likely. So my conclusion is we need to find a balance before I trade anymore in the near future. Prices will adjust soon enough and then it will be business as usual.

The world is being consumed with the constant television coverage of the rescue attempts being made in the clean up of New York. Post Mortems are taking place and no one I know has the immediate answer. These things will take time to resolve.

All I know is that the insurance losses will be immense. Another thing the airlines are loosing fortunes right now. The obvious effect is on the state of the economy of the USA.

As for my personal feelings; I think this act of terrorism is despicable, the culprits need to be brought to justice and when they are I will be happy. Money is only a tool when you have it, we endeavour to do the best in our business lives, but, at times you need to back off and wait it out. I am in that mood right now.

It might be a good time to end this chapter as I think I have demonstrated how I approach the markets on a day to day basis and the value of the opening price, which is all I set about doing in the 1st place.

Chapter 15:

New York WORLD TRADE CENTER Disaster: Is it a panic or not?

I had no idea when I began writing this book that anything as hideous as this would happen in my trading career. I was never prepared to see planes flown by terrorists crashing into people I respect and feel for.

I have seen panics in the markets before yet I have never experienced an event such as this.

It is now Monday night my time, 17th September, 6 days since the disaster. It is still 7 hours away before they test to see if the US stock markets will open successfully.

US Government has been guaranteed support from all nations in their alliance. US president Bush has declared war on the terrorists, secretary Colin Powell says we will get them no matter what it takes. I believe them.

Huge losses have been sustained world wide in the insurance and airline area. Estimates are coming through but nothing final.

ANSETT AIRLINES IN RECEIVERSHIP:
Today my local market continued the "Bungie Jump", didn't surprise me because one of our major domestic airlines, ANSETT AIRLINES filed for receivership Friday and is taking the market sentiment with it. Ansett planes were grounded on Friday with passengers stranded. And even though the airline was now a subsidiary of AIR NEW ZEALAND the Air New Zealand company said they were not responsible. The local government said it is not our responsibility and we aren't going to help them. Fact is the government allowed Air New Zealand to take over the Ansett company which was a household name here. So they just confirmed what imbeciles they are by letting a country of minimum substance run a major enterprise in Australia. Apologies to any NZ friends but you must know what I mean, if you don't wake up. A couple of NZ'ers I know just got naturalized here last week, shows some sense I think.

Nevertheless we have a saying here in Australia, as much as we like them, they are mostly sheep farmers. The ones that get out of there are usually better con men than us, I know plenty of them, they all live in Australia, England or the USA, wonder why.

Used to be a joke going around here, went like this, "If only NZ would get hit by a tidal wave, and then again a week later, when all the ones living in Australia went home for the funeral".

I know it isn't that funny but I thought it was at the time. Now I guess all those people who have lost their jobs at Ansett will think the same thing.

Here's a picture of our Bungie Jumper today:

Now we wait for the US markets to open and really see what the damage is going to be.

Monday, 17th September 2001

8:00am New York.
Plans are to open the market as normal on time, 9:30am, there will be 2 minutes silence and a break while everyone will be singing, "God Save America". Then it starts. The guys around the wrong way better start praying because as soon as the song is over it is dog eat dog again.

Once this starters gun goes off everyone will be on their own, they already have everyone prepared better than I have ever seen. No quarter will be given, if you don't have the money get out of the kitchen. Wonder how ugly it will be; the market has been closed for 4 days.

8:20 am RATES & THE FEDERAL RESERVE BANK:
Fed cuts rates 0.5 before the market is open and has pumped the money supply.

8:30 am Bloomberg Report:
This is only the beginning for the Fed they will drop another 0.25 at the next meeting.

8:35 am Overseas Markets:
FTSE, CAC and DAX are up marginally from Fridays close.

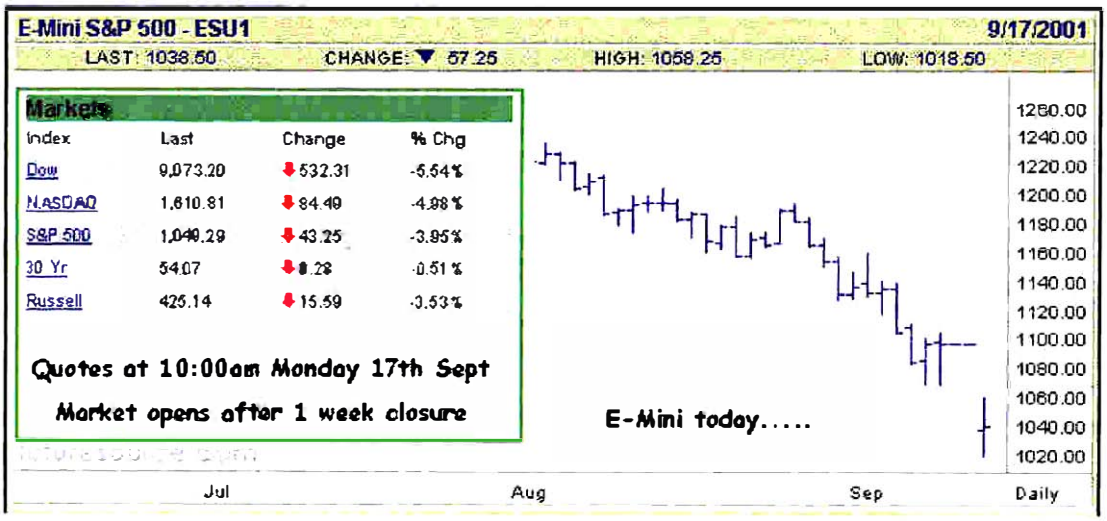
One hour to go. Everyone is arriving at the NYSE exchange, they are wearing American flags, Clinton is coming in, who else? It is going to be a real start for the day. Could only happen in America!

The press is really playing this up, says everyone is hugging and kissing everyone.

Market Opens Limit Down

As anticipated the futures market for S&P500 opens limit down.

This snap shot of the S&P E-Mini was at about 2:00pm.



Not a bad result considering the damage sustained to Insurance, Airline and Hotel chains. Some stocks were up others down marginally.

Anyway when you look at the chart you could have said that if the market was trading last week this could have been where it ended up today based on the way it was heading.

Now we have the markets open again it is business as usual.

BUSINESS

Interest Rates Cut Half Percentage Point

WASHINGTON (Reuters) - The U.S. Federal Reserve on Monday slashed interest rates between scheduled policy meetings in a bold bid to keep markets functioning in the aftermath of terror attacks in New York and Washington last week.

Markets Sink

The Dow suffered its lowest close since December 1998 today while the Nasdaq dropped 116 points.

Market Update »
Fed Cuts Rates »
Talk About It »

Chapter 16:

Australian Share Price Futures:

In this chapter I am going to explain how you can gain an advantage if you wish to trade the Australian Share Price futures contract the SPI200.

This market is the derivative for the ASX200 top stocks. The contract trades March, June, September and December. Value per point move is $25.00. Expiry is 12:00 the 3rd Friday of the delivery month.

The SPI200 trading hours are :-

Monday to Friday
Day session: 9.50am to 4:30pm
Monday evening to Saturday morning
Nite session: 5:10pm to 6:00am (changes during daylight saving).

The ASX200 (XJO) trading hours are :-

Monday to Friday
Day only: 10:00am to 4:00pm

The ASX has an opening rotation of stocks from A-Z which takes about 8 minutes to get them fully trading. There is a closing rotation at 4:00pm and the final print usually is in by 4:07pm.

IMPORTANT POINTS ASX200:

1. **The top 10 Australian stocks make up 50% of the 200.**
2. **The top 20 Australian stocks make up 66.7% of the 200.**
3. **7 of the top 10 stocks trade on the Overseas ADR markets.**
4. **The 4 major banks make up over 20% of the ASX200.**
5. **News Corporation accounts for 10% of the ASX200.**
6. **Broken Hill/Billiton accounts for 6% of the ASX200.**
7. **Telstra TLS accounts for 5% of the ASX200.**

The influence of the banks- NAB, CBA, WBC, ANZ, Media- NCP, Resource- BHP, Telecommunication- TLS set the tone most of the time as to where the index moves.

This knowledge is very important in respect to the intended direction of the futures markets.

The market sectors

1. **Banking Index- XBF**
2. **Media Index- XME**
3. **All Resources Index- XAR**
4. **Telecommunications Index- XTE**

The secret to trading the SPI200 efficiently is in knowing the potential of the top 10 stocks in the index.

The top 10 now are :-

SPREADSHEET:

Top 10	ASX200 % content 18/09/01	Total Points 17/09/01	% Change	Close 17/09/01 Yesterday	3:19 PM 18/09/01 Today	Change	PTS	Sectors
AMP	3.35	99.0	3.68%	16.56	17.17	0.61	3.6	3.6
NCP	4.70	138.9	0.65%	12.41	12.49	0.08	0.9	
NCPDP	4.23	125.0	0.36%	10.74	10.78	0.04	0.5	1.4
BHP	5.91	174.7	3.33%	8.83	9.12	0.29	5.8	
RIO	2.76	81.6	1.63%	30.65	31.15	0.50	1.3	7.1
NAB	7.13	210.7	1.35%	25.41	25.75	0.34	2.8	
CBA	5.94	175.5	1.67%	26.40	26.84	0.44	2.9	
WBC	4.11	121.5	0.91%	12.97	13.09	0.12	1.1	
ANZ	4.00	118.2	2.22%	14.85	15.18	0.33	2.6	9.5
TLS	5.68	167.9	2.25%	4.89	5.00	0.11	3.8	3.8
WOW	2.07	61.2	3.98%	11.05	11.49	0.44	2.4	2.4
XJO	49.88	1474.10	ASX200	2955.3	3007.9	52.60		27.9
			Futures	2983	3016	33.00		24.7
			Premium	27.7	8.1	-19.6		52.6

Rest					
Bill Rate	4.50%	Carry	DTE		Fair-Value
Expiry Day	28/09/01	$92.96	10	Carry Points	4
Value	$75,400	$9.30	18/09/01	Fair Value	3012
				Under Value	4

I designed this spreadsheet to track the weightings of the top 10 stocks and their respective influence on the XJO (asx200).

Early morning I collect the ADR closing prices from the NYSE and insert them in the spreadsheet to see if they will have a positive or negative effect on the index that day.

Local morning news of the US market trend sets a psychological pattern for what to expect in the Australian market most days. 60% to 70% of the time the trend will be similar, not always. If a stock like News Corporation gets trashed in New York you can bet the same will happen here as well. If it runs in New York it will also run here.

If the US markets are leading the local trend the banks normally follow the trend of the ADR's, if both the banks and News are heading in the same direction you can expect a strong day on the local futures. If the banks are going in the opposite direction to News you can expect a mixed to sideways day.

The ADR stocks are BHP, RIO, NCP, NAB, WBC, ANZ & TLS.

The overnight market (Sycom) closes at the same time as the US markets and if you get up early enough you can often see the trend in the ADR's and sometimes take a position at 6:00am just as the market is closing if you think it is over or under valued.

Most of the time the night session will trade to where it expects the local day futures to open yet there are occasions when it does not represent fair value. If you understand how to value the market there are many opportunities.

WHAT YOU NEED TO UNDERSTAND:

Whenever you have markets that trade outside of standard local trading hours, on overseas markets, they give rise to ARBITRAGE trading based on currency fluctuation.

So if an overseas complex is making declines or gains based on sectors such as Media, Resources and Banking and the $ conversion rate makes the difference between the local pricing and the overseas valuation of the ADR stocks they can be bought and sold on both markets and have a profit locked in.

Every now and then strange things happen and you have to be aware of it.

News Corporation is probably the major issue for arbitrage trading as it has a considerable presence in the USA. I continually watch its chart patterns in the US market as well as what it looks like in A$ trading on the local market.

Now if you think this is starting to sound like hard work you might as well forget about trading.

Trading to me is taking an advantage of someone else's lack of knowledge. If you don't realise that by now then that is why you have been losing money. We must strive to identify market weaknesses if we want to be successful. I for sure have spent 20 or more years doing it. That is what makes me different to most people.

Here's a situation from today:

18th September 2001

The cash market closed at 4:00pm the futures at 4:30pm my quote system is set up to watch the top 10 and the indices.

This system I use is Bourse Data.

AMP	16.950	17.250	135	1	16.708	17.230	16.708	17.160	0.600
NCP	12.480	12.580	61000	2	13.200	13.200	12.340	12.480	-0.089
NCPDP	10.620	10.710	5864	1	11.250	11.380	10.620	10.640	-0.101
BHP	9.150	9.180	158	1	9.080	9.180	8.950	9.180	0.354
RIO	31.200	31.250	3884	1	31.308	31.550	30.940	31.176	0.526
NAB	25.870	25.950	12275	2	26.900	26.900	25.350	25.910	0.583
CBA	26.900	27.000	3000	1	27.000	27.600	26.520	27.000	0.600
WBC	12.960	13.080	10000	1	13.291	13.400	12.930	12.999	0.027
ANZ	15.200	15.280	2800	1	15.100	15.400	15.050	15.280	0.358
TLS	5.010	5.010	94500	1	4.950	5.040	4.910	5.020	0.130
WOW	11.550	11.600	15176	1	11.059	11.650	11.059	11.600	0.551
XJO	0.000	0.000	0	0	2964.100	3044.000	2964.100	3010.100	54.800
APU01	2975.000	2977.000	Open Now		3022.000	3054.000	2972.000	2977.000	-57.000
XTL	0.000	0.000	0	0	1745.300	1795.000	1745.300	1772.000	33.400
APU01D	2992.000	2994.000	Day 6	0	3022.000	3054.000	2982.000	2994.000	5.000
XBF	0.000	0.000			7589.200	7850.800	7589.200	7733.900	169.900
XME	0.000	0.000	7:15pm Night		23804.700	24937.600	23729.200	23769.500	-38.500
XTE	0.000	0.000	Trade - all		1095.700	1130.400	1095.700	1126.300	31.900
XIN	0.000	0.000	other quotes are		6215.400	6384.900	6134.200	6240.300	38.800
XAR	0.000	0.000	End of Day.		1335.500	1358.000	1335.500	1357.400	31.700

The futures are trading right now in the night session and are down 17 from the day close. APU01 is 24 hour and APU01D is day only. XJO is the ASX200 cash index. Right now the night futures is running at a discount of 33 to the cash.

Psychologically the futures is suggesting that the rally today is over and we are heading down further. Makes some sense to me.

The only thing the traders in this market have to go on right now is supply and demand and the overseas markets. That will continue until 6:00am tomorrow morning. Bear in mind the night session is thin. Considering the "fair value" of the futures would be about 4 points higher than the cash close of 3010 the futures are trading at a substantial discount.

Nevertheless times are unusual right now so anything is possible.

Without making a forecast of what will happen tomorrow I would wait and see what the overseas markets do and what this night session does to confirm or refute their actions tonight. If the US markets "tank" again you can bet the night futures will continue down, if not it will be a surprise and they will cover heavily in a thin market prior to the night session close at 6:00am in the morning.

A picture paints a 1000 words:

Now the cash ASX200 in the day session.....

You can easily see from these charts how the futures market overshoots the expectations of the cash traders when it is trading out of hours. The cash index is based only on market capitalisation when the day market is trading.

A COUPLE OF POINTS WORTH NOTING:

In volatile times like this week the futures will trade up and down around the cash price, either to a large premium or a large discount. At one stage this week I saw an 80 point premium and at another I saw a 70 point discount.
Most of the time in orderly markets the market will hold a consistent premium or discount and then if it diverges will return to that discount or premium value at some time throughout the day or in the night market between 5:10 and 8:00pm when we don't have any guidance from outside markets.
These situations allow for other opportunities if you can read the overbought or oversold conditions of the market.

Today is really not the time to demonstrate what I am talking about because the market is not exactly stable right now. The thing is tho that at 7:15pm when I took the price print the futures were at a discount of 33 to the cash close. Which could mean that at anytime throughout the night session the market could come back to square with the cash close, if the perception of further falls diminish, because of overseas market activity.

At times in more orderly markets these anomalies present themselves either at the open or at the close.

The funniest thing I ever saw one day, back some years ago, when the futures used to close for an hour and a half at lunch time and the cash market kept trading was this.

It was a Friday and all the futures traders were at lunch from 12:30 to 2:00, futures were at their high for the day at 12:30 when trading stopped for lunch time.
About 1:00pm the cash started to sell down and by 2:00pm was down 80 points from the pre-lunch print. The word quickly got around by 1:30 that the market was falling and the traders in long positions were trapped till 2:00.
They all dropped their lunch and bottles of wine and ran back to their offices to find they were underwater big time.
When trading in futures resumed at 2:00pm all sorts of sell orders hit the market.
I only have the daily chart to show you but it resulted in an outside reversal day pattern with a triple bottom.

Things like this used to happen in this market when it was open outcry and the cash was trading electronically. Now they happen differently as these guys are experts at developing schemes to hoodwink each other.

The traders who trade this market push it around a lot searching for stops, this market is not for the novice. Sometimes futures movements make no sense whatsoever and then all of a sudden large stock orders hit the market to justify the futures direction.

You have to have a lot of street sense to trade this market. If you don't then it is virtually impossible to make money from it.

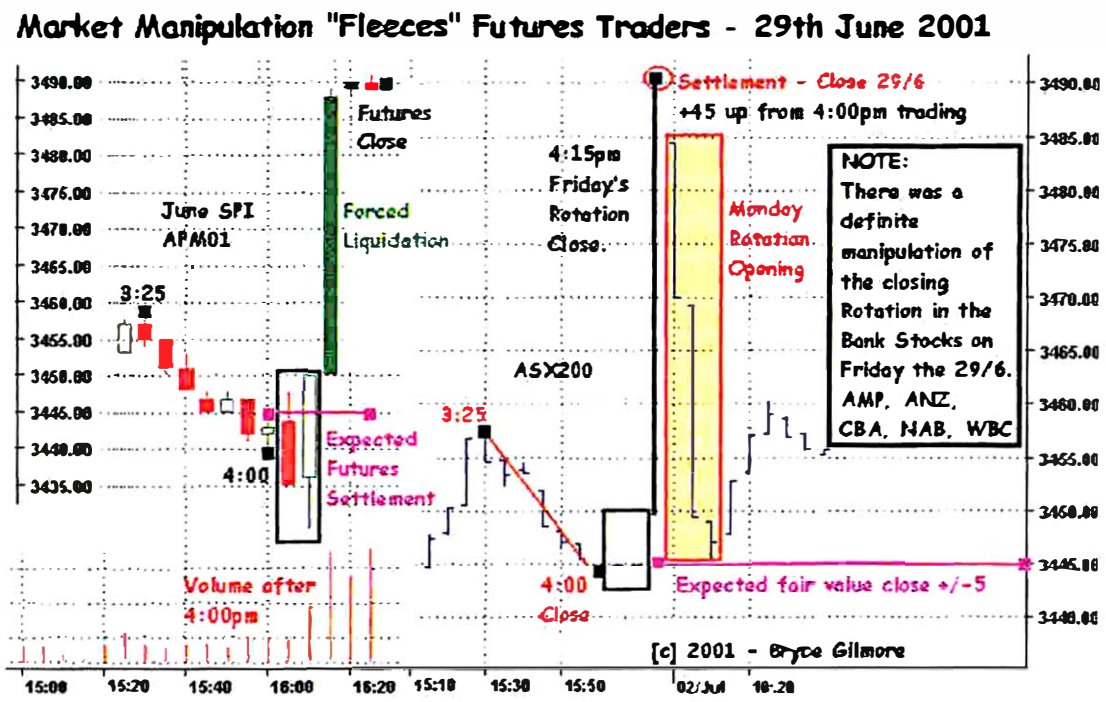
The one thing you can be sure of tho is that the traders pushing this market around have habits, if you study their habits and use some commonsense and money management you can beat them at their own game.

I have been at them for years and still they give you a surprise every now and again. The best one recently was when they found a way to rig the June 2001 contract expiry by pushing the cash up artificially at the closing rotation.

Cash and futures go out square on expiry day, the cash closes at 4:00pm and the futures adjust to it as they close at 4:30pm. On June 29th this year the cash print at 4:00pm was 3445 and futures were at 3440. The rotation period for the close out was extended to 4:15pm and when the final XJO print hit the screens the cash had closed at 3490 up 45 from 4:00pm. Traders who were waiting to square positions were squeezed and had to buy pushing the futures straight up to 3490 in minutes.

The authorities have investigated the matter and made no charges.

This is what happened:


Market Manipulation "Fleeces" Futures Traders - 29th June 2001
Settlement - Close 29/6
+45 up from 4:00pm trading
Futures Close
4:15pm Friday's Rotation Close.
Monday Rotation Opening
NOTE: There was a definite manipulation of the closing Rotation in the Bank Stocks on Friday the 29/6. AMP, ANZ, CBA, NAB, WBC
June SPI APM01
Forced Liquidation
3:25
ASX200
3:25
Expected Futures Settlement
4:00
Volume after 4:00pm
4:00 Close
Expected fair value close +/-5
[c] 2001 - Bryce Gilmore

So you have to understand what you are dealing with to make money. Markets are markets, people are people, anyone who can find an edge will use it if they think they can get away with it.

The night market does it again, remember when I started "a couple of points worth noting", I said the futures could come back to square with cash in the night session!

SPI® 200 FUT SEP 2001 NIGHT
HERE IS THE PERFECT EXAMPLE OF WHAT I HAVE BEEN TALKING ABOUT.
4 HOURS AGO THIS MARKET WAS TRADING AT A 33 DISCOUNT TO CASH NOW IT IS AT 2 PREMIUM!
12:00PM
3012
2972
12/Sep 18:45
13/Sep 18:45
14/Sep 18:45
17/Sep 18:45
18/Sep 18:45

Morning 19th September 2001 – ADR's trading New York

The ADR stocks from the top 10 closing prices in New York indicate a potential increase in the index today from yesterday's close.

The only problem is the BHP adr price seems out of line so the chances are it may not be as strong as this spreadsheet indicates.

Top 10	ASX200 % content 18/09/01	Total Points 18/09/01	% Change	Close 18/09/01 Yesterday	New York 19/09/01 ADR's	possible ADR effect	A$/share ADR Change
AMP	3.35	100.8	1.52%	17.16			
NCP	4.70	141.5	1.29%	12.40	12.35	-0.6	-$0.05
NCPDP	4.23	127.3	2.44%	10.64	10.86	2.6	$0.22
BHP	5.91	177.9	-2.07%	9.18	10.10	17.8	$0.92
RIO	2.76	83.1	0.88%	31.18	31.77	1.6	$0.59
NAB	7.13	214.6	-1.58%	25.91	26.69	6.5	$0.78
CBA	5.94	178.8	-0.78%	27.00			
WBC	4.11	123.7	-0.76%	13.00	12.97	-0.3	-$0.03
ANZ	4.00	120.4	0.33%	15.20	15.25	0.4	$0.05
TLS	5.68	171.0	6.12%	5.02	4.99	-1.0	-$0.03
WOW	2.07	62.3	2.97%	11.60			
XJO	49.88	1501.44	ASX200	3010.1	Top 10	27.0	
			Futures	2994	Others		

The feedback here is relative neutral as a trading tool because the majority of any indicated strength is coming from NAB and BHP. Then all we could do is see how BHP reacts at the open in the ASX200 trading. In general though it does not look like we are facing a down day.

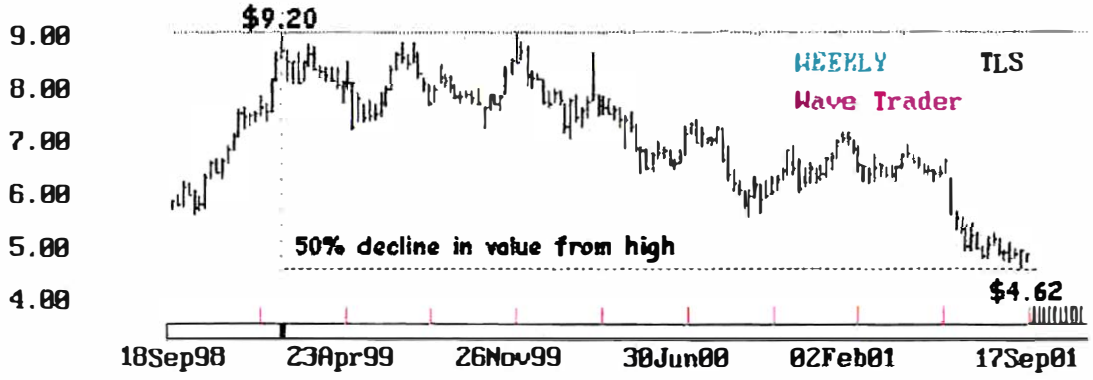
Top 10	ASX200 % content 18/09/01	Total Points 18/09/01	% Change	Close 18/09/01 Yesterday	4:54 PM 19/09/01 Today	Change	PTS	Sectors
AMP	3.35	100.8	1.52%	17.16	17.42	0.26	1.5	1.5
NCP	4.70	141.5	1.29%	12.40	12.56	0.16	1.8	
NCPDP	4.23	127.3	2.44%	10.64	10.90	0.26	3.1	4.9
BHP	5.91	177.9	-2.07%	9.18	8.99	-0.19	-3.7	
RIO	2.76	83.1	0.88%	31.18	31.45	0.27	0.7	-3.0
NAB	7.13	214.6	-1.58%	25.91	25.50	-0.41	-3.4	
CBA	5.94	178.8	-0.78%	27.00	26.79	-0.21	-1.4	
WBC	4.11	123.7	-0.76%	13.00	12.90	-0.10	-0.9	
ANZ	4.00	120.4	0.33%	15.20	15.25	0.05	0.4	-5.3
TLS	5.68	171.0	6.12%	5.02	5.33	0.31	10.5	10.5
WOW	2.07	62.3	2.97%	11.60	11.95	0.35	1.9	1.9
XJO	49.88	1501.44	ASX200	3010.1	3034.9	24.80		10.5
			Futures	2994	3043	49.00		14.3
			Premium	-16.1	8.1	24.2		24.8

As I suspected BHP and NAB were not running true to form, NCP did move a little closer to form. TLS was the performer today.

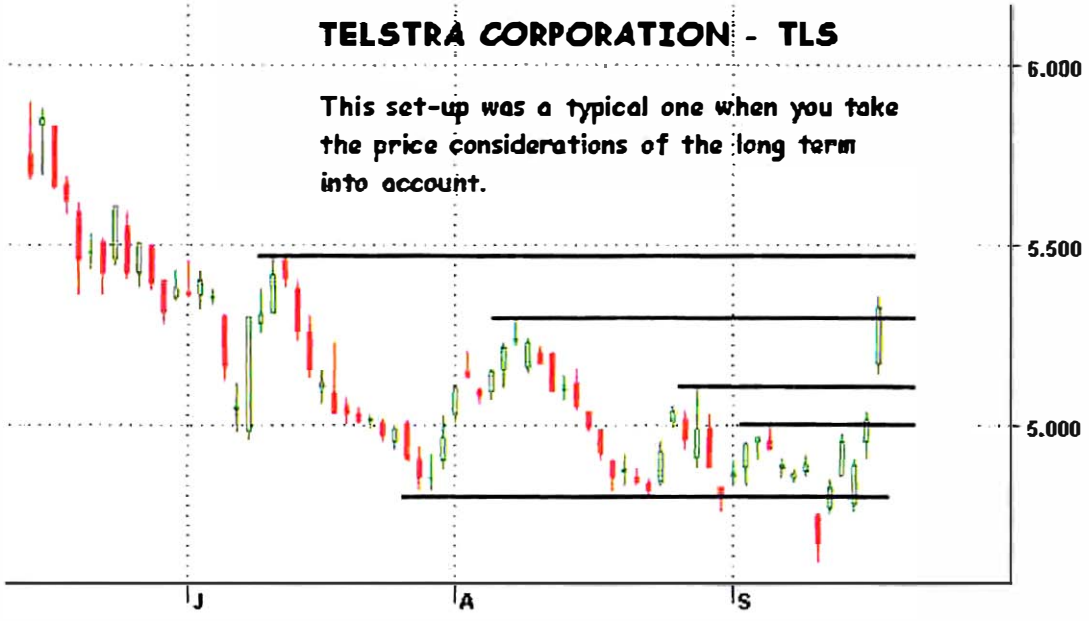
TLS – Telstra Company – Telecommunications.

I mentioned this stock in WTD despatches a day or so back because, of all the stocks in the top 10, this one was the best buy technically.

This chart will explain why.



a target price of $4.60 to become a buy. I wonder why I thought that? I'm not explaining in this chapter, but it did make it to important geometry last week, so it is no surprise to me it is in favour right now.



The opportunity that was presented here was determined by price analysis. That is why I watch the top 10 so closely.

Sometimes you will be thinking –
OH YEAH, HOW DOES HE KNOW THESE THINGS?
You can all know these things if you have faith! They won't work all the time but, the ones that do are most satisfying. If you use commonsense and apply knowledge you will surprise yourself.

THE XJO and XPI index

These are the CASH MARKET indices for XJO = 200 and XPI = 230, the XPI was the old equivalent to the SPI futures before the exchange changed the contract specifications.

All the long-term history data can be accessed through the XPI and the XJO has been in life since April 2000.

All timing analysis is best worked from the CASH market indices. Price relationships are best worked using both the CASH and the FUTURES prices.

I have been following and trading this market for many many years and I did use the SPI and XPI to demonstrate the examples in my Dynamic Time and Price Analysis of Market Trends book, [C] 1998.

I didn't write that book because I thought it a good idea to start selling books again, I wrote it to demonstrate what I have been saying to people all these years. You have to experience the phenomena of markets reacting to time and price support and resistance to become a believer.

If you are not a believer right now then you will be if you see enough of it happening before your eyes in the future.

Point is though you are going to have to do some work to see it.

No work = no belief..... pretty simple.

The biggest failing I see with people involved in trading is that they think they can do it without putting in any work. Anyone who knows me knows that I work, I am continually doing analysis and looking for odds on opportunities, when I am in the mood. I look at pattern first and decide whether I am interested in the subject at hand. If it looks promising I then go to other studies to try and work out the probabilities. When I find probabilities I make guidelines on my charts for support and resistance. If a market starts to do what I have in mind for it I trade it. Nothing difficult about my approach.

WHEN IN DOUBT – STAY OUT:

If you want to make money trading you have three options.

1. **Trade every day for scalps.**
2. **Trade frequently for 2/3 day moves.**
3. **Trade for the major moves.**

I don't like surprises so I have gravitated to a short-term trader over the years. I prefer to be out of the market when I can't watch it.

It does not mean that you have to do what I do, all it means is that you must have good reasons for taking trades, then you must manage them. It is far easier trading more contracts, with tight stops, for sharp moves than it is having 1 contract with a wide stop and looking for the long pull trade. It's a quicker result to!

If you learn all about a market and the people who trade it you can be successful. They are no better than you or I, they have their weaknesses and they can be exploited.

It's the idiots walking around saying you can make money in the markets trading by astrology that I dislike. Not because they are doing it, just because they are selling all this shit to the public.

Markets are about facts, supply and demand pressures, trader's positions, risk management, trends and psychological behaviour.

You must learn to control yourself to be successful in this business.

Somehow I digressed a little but that is how I am so it can stay here. I am trying to explain in this book everything I see and feel so that you can take it to heart and consider how it fits into your plan for the future.

If you find this boring you had better give this game away, I can already see it in some peoples eye's, saying, "Oh this is just too hard". We saw that last time WTD renewal time came up on the 30th June and 10 people resigned, so good for them they took my advice, get out of the kitchen if you can't stand the heat!

Well it's not hard, it is only work.
There is no free lunch in this business, you have to earn every penny you make by being smarter than the opposition. The opposition is other traders opinions of where the markets are going – nothing more. Other traders are not your enemy, they simply provide the liquidity and money that allows you to profit.

All I want to do when I trade is get their money, if I can't then I don't want them to get very much of mine.
Over the long run if I choose my trades carefully I will win. I've already proven that as I am here and thousands if not millions are not.

Did I say this before or not, can't remember but it won't hurt to tell you again.
Statistics say that 60% of all present futures accounts will go broke within the next 6 months.
Statistics also say that only 10% of all traders in the markets will be consistent profit takers. I think this figure is overstated.

So it follows that if you want to succeed in this business of speculation you have to train yourself, you have to learn how to trade smart, you have to learn how to preserve your capital for the right opportunities. You have to avoid unknown situations and only deal with the ones that you know about.

If you do anything else you become a gambler and then it is not a business anymore. You have to become an ODDS giver, not an ODDS taker. Geezes I get intense when I see people doing the opposite.

Some years ago I had a guy who was a professional financial consultant buy my software, and attend a two day seminar we held here on the Gold Coast. He seemed like a nice guy and seemed to understand what I was teaching.

Nevertheless, he held an opinion at the time that the local share market was going to collapse! So when the market rallied from a significant low all he did was look for places to short it. He would ring me and say I just shorted the market yesterday and it is still going up, what do you think? I said, Ian why are you still short? The trend is up, prices are going up, everything in the trend module of WaveTrader says the market is strong! So why are you fighting it?

The truth was he was not a believer in what he saw before his eyes, he had been taught by someone else before me that the market turns on certain static times and you can pick the tops and the bottoms and make yourself rich! Well that didn't work for him so where did he go wrong?

He went wrong because he thought he could tell the market where it was going to go.

Unfortunately for him he found out the hard way, this is what I am trying to stop you guys from doing.

So let's have a look at where we stand:

We definitely don't need to gamble!

People often wonder why I will sometimes sit around all day just to make one trade.

Point is: I don't like to be in the market unless everything is in my favour. If I can get in and take small bites at the most opportune times I am satisfied.
If I am wrong I get out immediately with a small loss or breakeven. By doing this I reduce the stress that trading places me under.

I have been teaching this philosophy to everyone I have had any contact with for as long as I remember.

You enter the market at an opportune point, with a tight stoploss, if the position is going to work it should work immediately, if it does you ride it until you see that it is going to turn against you. At the first sign of trouble I take profits. It is far easier to re-enter at the next opportunity than sit through a grinding correction wondering if the market is going to turn back in your favour.

People reckon I am lucky for some stupid reason, they say that everything I turn my hand to works for me.

The truth is their perception of me is wrong!

I appear to be like that because it suits me. Underneath I am a worker and thinker, I work harder at things than most people would ever realise. Work comes easy to me, I have been my own boss for over 30 years.

I can see people making mistakes that they can't see themselves, why? It's only because I have the experience.

Everyone has to find a method of trading that suits their own personality to be successful. Once you find the method that suits you and you can say to yourself, "I am not gambling, I am only an educated risk taker", then you are in a position to trade for a living.

This might sound like "this is my life" but it is just a mindset I have.

If you can identify with it you could probably identify with any self disciplined trader.

Banking Index – XBF

The current crisis came at a time when the market was in a weak position. Since then we have had news of Ansett in trouble and today Pasminco a huge mining conglomerate has gone into administration with debts to the banks of 1.7 billion dollars.

Question now is, who else is going to join the list of defaulters?

There are always warning signs before any major moves in the markets, you have to follow all of the components of an index to get a fair idea of where it will be heading in the future. This is part of the reason I wouldn't just rely on a mechanical system to make judgements for me.

I was bearish this market well before the upheaval caused by the terrorist attack on New York.

When the dust settles and we can see where these banks stand, that might be when we see some stabilization to the SPI200.

Out of this debacle will come some good, don't know what it will be just yet but when I find out I am going to trade it. I am always looking for new opportunities. Yesterday is past history to me when I have my trading hat on.
As the old saying goes, "You are always a chance if you go to a dance!"

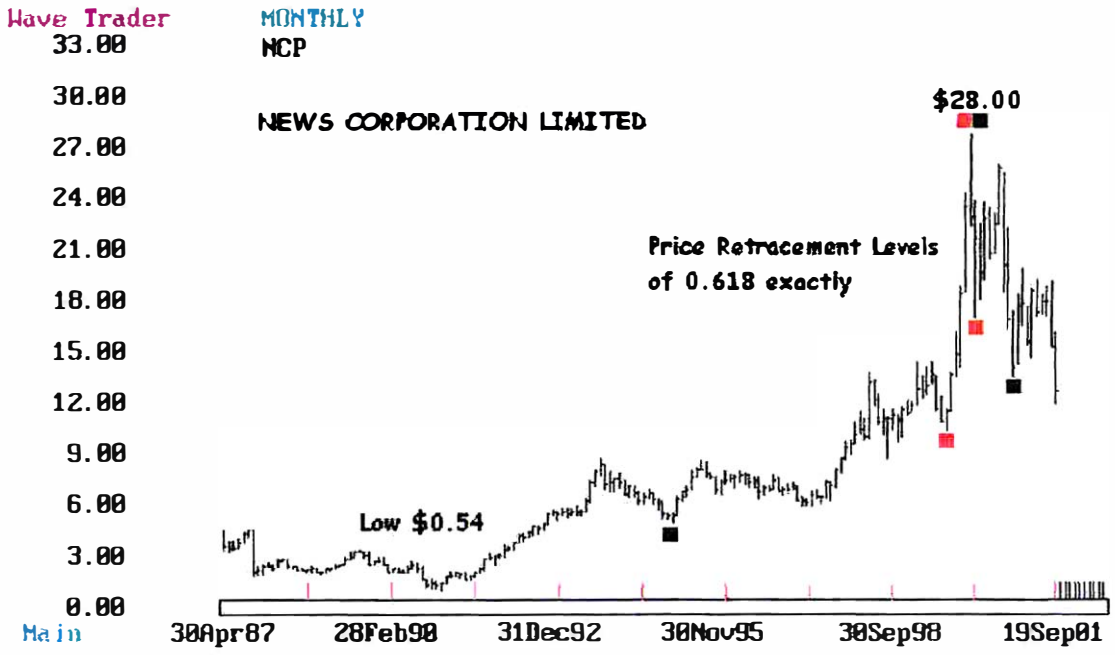
News Corporation Limited

This company has two lines of stock, NCP and NCPDP.

The DP stands for deferred. This stock is a strange one as it does not pay hardly any dividend ever. All profits are re-invested in new ventures, so it is a volatile mover.

Every time it is working on another take over there is speculation in it.

I have noted that it is very technical at market highs and lows. Therefore it is on my major hit list to monitor.



To keep focus on the SPI200 it is imperative you know what the trend of this stock is.

Your efforts will be rewarded if you follow the banks and News because at times they can cancel out each others effect on the ASX200.

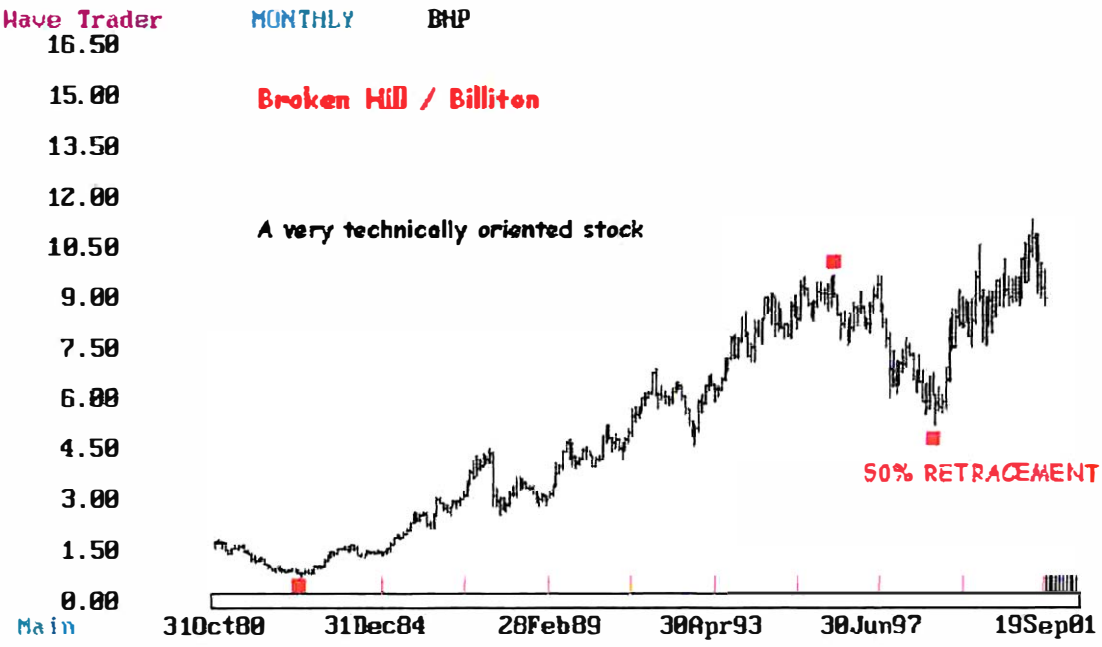
If you can catch major swing points in NCP and the Banks you will be well on your way to knowing where the ASX200 is heading.
Combine this knowledge with BHP and TLS and when you see trends develop they will most likely hold the direction of the market in their hands.

Broken Hill / Billiton Limited. BHP

At one time this company was the number one stock in the Australian market. Now it is anywhere between 3rd and 5th after a complete rationalization over several years.

But it is a favourite with the big players so it must be watched closely, BHP is an all resources, mining, steel and coal producer.

It has its up and downs and since its amalgamation with the British company Billiton it has been on a downer.



Back in December 1998 this stock terminated its bear market on an exact 50% retracement of all gains from the 1982 low.

You can't get better than that. I have written various other things on this stock in previous books.

If you dig into this stock you will find it is fairly predictable because of the faith and volumes of trading that surround it.

Mind you all of these major stocks can be traded individually with ease, they have liquid warrants markets, put and call options markets and they can be bought or sold on margin.

If you concentrate on things of value in this business you are far better off than all the bargain hunters running around trying to buy penny stocks.

COMPARE THE INDEX TO THE INDIVIDUAL STOCKS:

The ASX200 index is not a proper guide to anything, it is a composite of everything, it is bullshit. The exchange officials that dreamt up the SPI200 futures contract index are total wackers.

SPI200 is not a barometer of any thing, all it does is allow us to trade an unknown quantity against fools who believe it is something else. To them I would compare it to a poker machine, to me it is a science of logic.

Market commentators believe the index is the guide to economic performance, well it is not. To begin to think that it will follow some preordained path every day is a misnomer. It may follow a strong trend when one is in force but most of the time it is misleading. It jumps around from fair value to misleading value. If you don't know this you are fooling yourself.

The public are conditioned to look at the index and think that is the clue to buy or sell stocks as all will be going in that direction. Take TLS which most of them own and ask them why it declined 50% in value when the general market appeared to be strong. I wonder what answers you will get.

Perceptions are everything to people who don't understand, you should hear some of the stupid comments I have to listen to at the golf club. Many of these guys are smart and live on pensions yet they don't have a clue, and I mean they don't have a clue.

The financial system is a "field of land mines" waiting for unsuspecting intruders. That is why people lose money in the markets, not for any other reason.

Take a guy off the street who was successful in a "normal" business and he retires, he thinks he can invest in the share market and double his wealth. It will only happen if he is in at the right time. The ones that were lucky enough to get in at the right time are the worst, you can't tell them anything. Now they are suffering through their own stupidity. I just shrug my shoulders these days and say, "well it's bad luck isn't it".

Anyway the point is you have to know what you are dealing with to make money, if you don't you are kidding yourself trying.

I'm getting tired of saying the same thing over and over again but it is necessary because we don't want to repeat the same mistakes.

21st September 2001

Numbers in the World Trade Center disaster have now been raised to 6300.

ADR Stocks - American Depository Receipts - Morning 21st September 2001

I cut and paste the ADR prices into my spreadsheet to track any over night changes to these stocks from our local close yesterday.

21st September 2001

ADR	US$ +/-	US$	A$	Split	A$ value
NYSE			0.4918		
NAB	-2.83	**60.05**	$122.10	5	$24.42
CBA					
WBK	-0.4	**31.25**	$63.54	5	$12.71
AMP					
ANZ	-1.6	**35.85**	$72.90	5	$14.58
NWS	-0.55	**24.10**	$49.00	4	$12.25
NWS.A	-0.54	**21.11**	$42.92	4	$10.73
TLS	-0.1	**13.10**	$26.64	5	$5.33
BHP	-0.75	**8.23**	$16.73	2	$8.37
RTP	-4.35	56.25	$114.38	4	$28.59

The ADR stocks trade in US$ and are also larger multiples of the local stock units.

For instance NAB is 5 local shares so US$60.05 = A$122.10 and then you divide it by 5 to get the local equivalent of $24.42

NAB closed here yesterday at $24.55 so it was down slightly over night. Not much of a change to worry about.

I think the bigger worry today is going to be MORE panic after the collapse again in the DOW.

10:26am, 21st September 2001.

Today is the 14 year anniversary with the ASX 1987 high.

Top 10	ASX200 % content 18/09/01	Total Points 20/09/01	% Change	Close 20/09/01 Yesterday	10:26 AM 21/09/01 Today	Change	PTS	Sectors	New York 21/09/01 ADR's	possible ADR effect
AMP	3.35	99.9	-3.52%	17.62	17.00	-0.62	-3.5	3.5		
NCP	4.70	140.2	-3.73%	12.31	11.85	-0.46	-5.2		12.23	-0.9
NCPDP	4.23	126.2	-4.93%	10.75	10.22	-0.53	-6.2	-11.5	10.72	-0.4
BHP	5.91	176.3	-7.57%	8.53	7.88	-0.65	-13.3		8.36	-3.5
RIO	2.76	82.3	-6.25%	30.40	28.50	-1.90	-5.1	-18.5	28.55	-5.0
NAB	7.13	212.7	-3.05%	24.55	23.80	-0.75	-6.5		24.39	-1.4
CBA	5.94	177.2	-4.44%	25.90	24.75	-1.15	-7.9			
WBC	4.11	122.6	-4.40%	12.50	11.95	-0.55	-5.4		12.09	1.9
ANZ	4.00	119.3	-4.32%	14.60	13.97	-0.63	-5.1	-24.9	14.56	-0.3
TLS	5.68	169.5	-2.60%	5.39	5.25	-0.14	-4.4	-4.4	5.32	-2.2
WOW	2.07	61.8	-2.46%	11.80	11.51	-0.29	-1.5	-1.5		
XJO	49.88	1.07	ASX200	2983.3	2897.2	-86.10		-64.3	Top 10	-11.9
			Futures	2990	2910	-80.00		-21.0	Others	
			Premium	6.7	12.8	6.1		-86.1	Total	
Rest										US$
Bill Rate	4.50%	Carry	DTE		Fair Value					175
Expiry Day	28/09/01	$71.75	8	Carry Points	3				AUD$	199
Value	$72,750		21/09/01	Fair Value	2900				0.4925	2236
				Under Value	10					

The market opened and collapsed to 2902, rallied back to 2920 area then sold off to 2897. The futures held low at 2910 indicating support today, why? Because it held a premium in a collapsing market. The futures have declined 16.6% from the June 2001 all time high.

12:26pm The cash is back around 2920 and futures went from 2910 to 2937 back to 2918 back to 2936 and are now settling around 2926 mid way: Shorts look like bailing on any break above 2937 so it could be solid. How far the cash can rally is still an unknown quantity.

President Bush was on TV LIVE at congress an hour or so ago and he explained what his administrations plans are for the future – kill all terrorists and anyone who wants to give them sanctuary. The foundation for the future has been laid.

The ASX200 market has some solid support down here. Perhaps the BUNGEE has halted its jump. Won't cost much to find out! Not with the stops I employ.

4:30pm. The market is the boss, it has its own ways and there is a lot of apprehension in the market place right now. Futures broke up with the cash but couldn't hold it, they went negative after the cash close. Cash went out at 2942 at 4:00pm and futures fell to 2920.

Volume today was an amazing 24,013 contracts, when the market was at 2910 early in the day there were only about 3,500 done.

6:10pm The cash index closed at 4:00pm on 2942, the futures are now trading at 2877 on news that London is still falling apart. I was out for a couple of hours and was surprised when I came back, to say the least. I didn't have a position so I didn't suffer.

Tonight is going to be a big test when the US markets begin trading again.

The futures are telling us that this downtrend has a lot more to go.

The thing to be learnt here is how fragile investors trading on margin are when uncertainty hits.

Overseas markets are open – DAX is down 204, CAC is down 200, FTSE is down 190.

Looks like nothing will stabilize until the US markets indicate a solid support.

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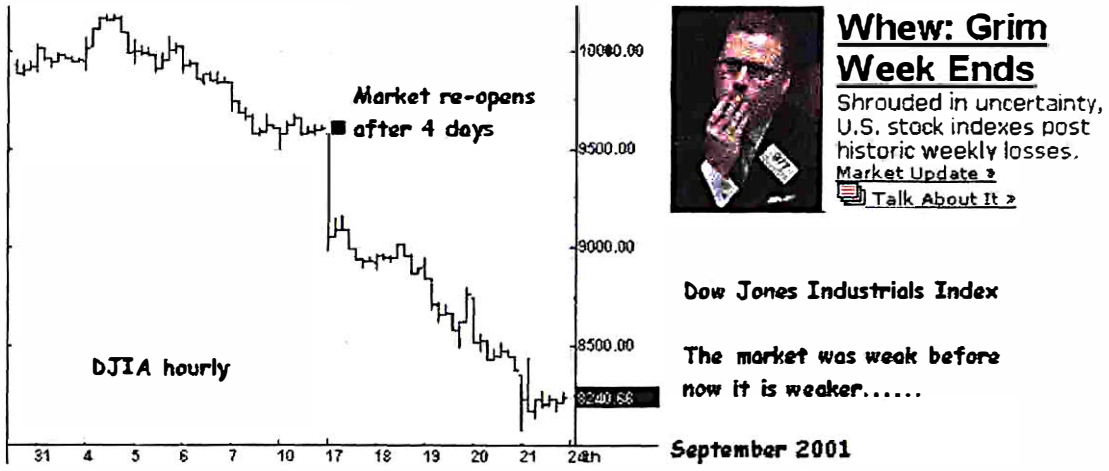
Night Trading: After New York opened and went downhill the SPI dropped to 2842 and then rallied back to 2920 on the close.

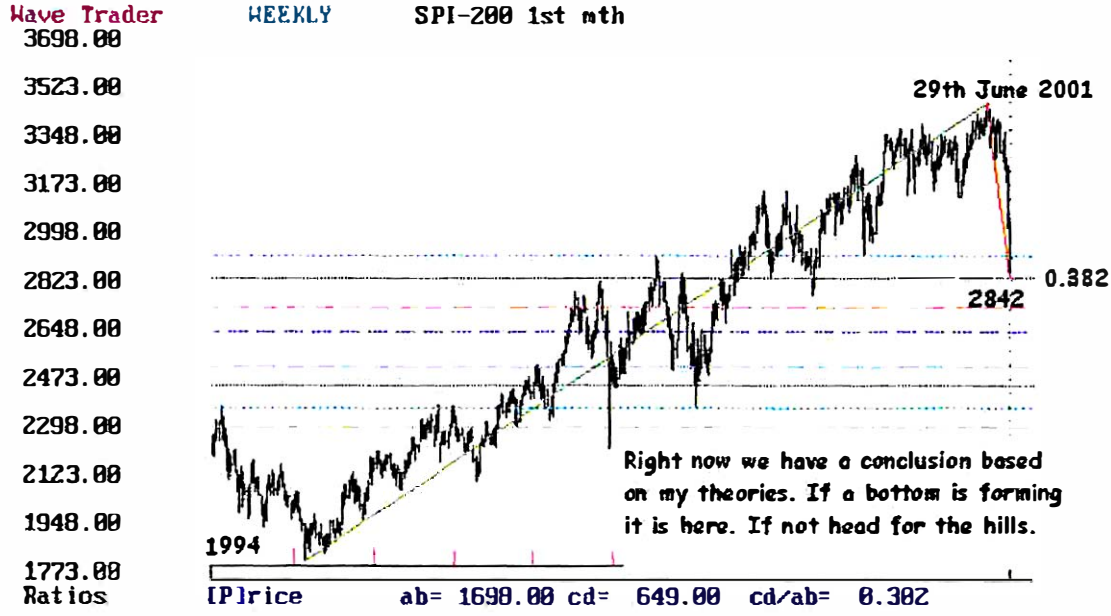
Support is really a mystery right now so it is not a time to be a buyer of any stocks whatsoever.



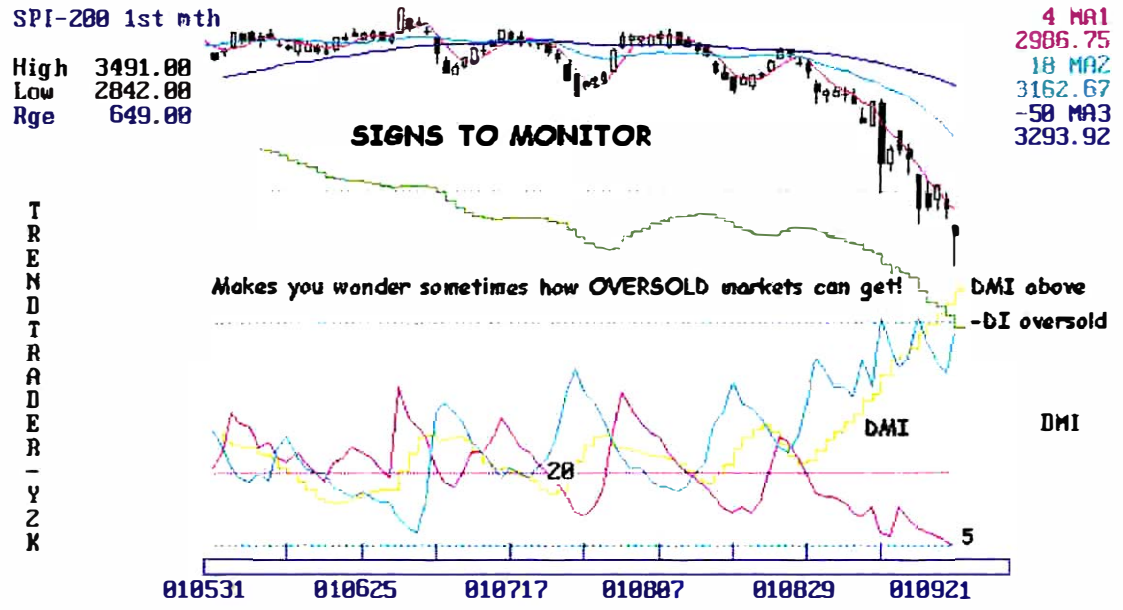
This is the news we go into next week with. I am out and I am staying out of this shit fight. You could trade it but to me it is an unknown quantity.

One thing that I have noted in the past two weeks particularly, and the previous weeks before that is this, hardly one brokerage house has advised any investors to sell. This is typical of brokerage firms, all they ever do is give you reasons to buy. You have to step back a bit from these guys as they are only selling commission. Thing is they are all walking around hoping that the market won't fall and put them out of a job!

Maybe everything just feeds on itself now that it has done so much damage.



The only technical help on the horizon for the SPI right now is this price relationship that just came to light for me. Time will tell.



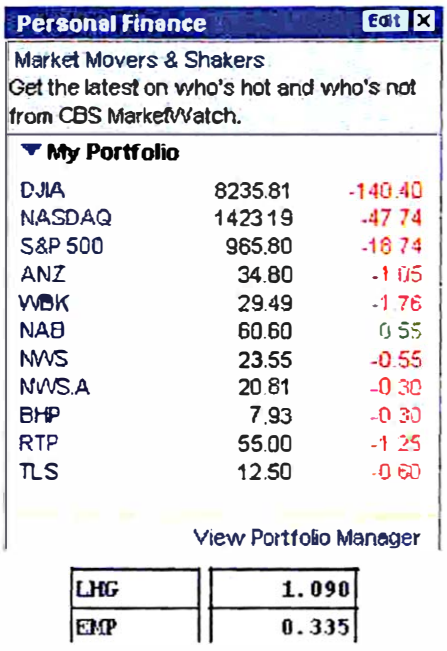
Amazing how some markets get into this position! Chances are increasing more than ever that we will react the other way.

The world is an amazing place sometimes, if you keep your eyes and ears open.
Point is: the only thing that can take this market lower is PANIC.

Look at the hourly chart when the market reacted off the 2842 bottom out of hours. Very sudden reversal at the precise price!

This event happened outside of normal trading hours and is purely based on the behaviour of the speculators.

XPI	2942.300
AMP	17.380
NCP	12.060
NCPDP	10.600
BHP	7.950
RIO	29.200
NAB	25.683
CBA	25.548
WBC	12.077
ANZ	14.500
TLS	5.280
WDW	11.690
XJO	2941.900
APU01	2921.000
XTL	1719.400
APU01D	2920.000
XBF	7438.600



LHG	1.090
EMP	0.335

Closing Prices - Friday 21st, September 2001

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Monday, 24th September 2001

Pre-Market:
I belong to an internet discussion group – WaveTrader Digest. Interestingly over the weekend we discussed the technical position of all the world's major indices. The situation with the DJIA, S&P500, FTSE and the Neikki Dow indicated a possible technical support for each market, all made new lows on Friday in this run down.

I have also run through all the top 10 stocks in the ASX200. AMP and the banks all made reversal day patterns on Friday, NCP also has solid technicals to indicate a possible reversal. BHP and RIO are debatable and TLS looks positive from its previous low.

WOW the 10th company in the top 10 has not been affected by this debacle and in fact has traded to new highs last week. Seems like Woolworth's, which is a retailer, is perceived as a safe haven by the fund managers.

The badly effected stocks in the past week have been Airlines, Banks, Insurance, Airlines, Hotels and Resources.

Two major companies are in a state of bankruptcy, Ansett Airlines a 65 year old major airline and Pasminco one of the largest mining companies in the world. Both were in big trouble before the events of the past two weeks so they are not really an issue.

MARKET HOURS:

The SPI200 opens in an hour, today I am going to give a blow by blow account of the trading session.

The fundamental negatives for the market is now the threat of a major recession and decline in consumer confidence, I remember the same being said after the 1987 crash yet somehow things worked out OK.

Overseas: Moves are being made to freeze and impound any funds belonging to terrorist groups. Greenspan claims there are enough government stimulus policies in place right now to buoy the US economy.

NZ market has opened and is down 1.5%, major decliner is AIR ZEALAND down 40%. Japanese markets will be closed today for the equinox holiday.

As long as there is no further panic things should stabilize, most of the damage last Friday would have been margin selling, if that is over then so is the decline as the bargain hunters will appear. I can already hear murmurings around the "traps".

SPI200 futures opened at 2912 and traded to 2922 and has come back to 2902 in the first 10 minutes, this is a down sign.

10:00am : Stocks are starting to open, AMP down .36, ANZ down .20, BHP up .15, CBA down .52 , looks like the selling is still continuing today.

Code	Bid	Ask	Qty(A)	First	High	Low	Last	+/-

10:10am: All stocks are now trading

The index is down but looks stable, most of the top 10 have opened on their lows.

MIM	0.780	0.790	71297	0.790	0.790	0.790	0.790	-0.010
XPI	0.000	0.000	0	2936.000	2936.300	2915.500	2915.900	-26.400
AMP	16.900	17.000	18720	17.025	17.000	16.940	16.940	-0.440
NCP	12.080	12.100	13994	12.000	12.200	12.000	12.100	0.010
NCPDP	10.550	10.700	1003	10.544	10.600	10.544	10.600	0.000
BHP	0.020	8.030	20926	8.100	8.100	8.020	8.030	0.080
RIO	28.900	29.000	3400	28.832	29.000	20.800	29.000	-0.200
NAB	25.250	25.300	14793	25.144	25.320	25.144	25.240	-0.443
CBA	25.250	25.400	6225	25.023	25.350	25.023	25.240	-0.308
WBC	12.070	12.080	9600	12.149	12.150	12.080	12.080	0.003
ANZ	14.250	14.300	10000	14.250	14.400	14.200	14.300	-0.200
TLS	5.240	5.250	26085	5.250	5.260	5.230	5.240	-0.040
WOW	11.610	11.640	5825	11.600	11.610	11.600	11.610	-0.080
XJO	0.000	0.000	0	2935.600	2935.900	2915.100	2915.500	-26.400
APU01	2909.000	2910.000	3	2912.000	2922.000	2902.000	2910.000	-11.000
XTL	0.000	0.000	0	1717.100	1717.100	1707.400	1709.200	-10.200

The SPI200 (APU01) has rallied back to the opening print area.

10:27am : The immediate picture has changed as the cash XJO has just broken Friday's low and many of the top 10 are trading below their opening levels.

Code	Bid	Ask	Qty(A)	First	High	Low	Last	+/-
10:27am : Cash ASX200 (XJO) just broke below Fridays low and the AMP, Banks, BHP and WOW are trading below their opening prints : Signs are the decline is still on.								
MIM	0.770	0.788	210793	0.790	0.790	0.770	0.770	-0.030
XPI	0.000	0.000	0	2936.000	2936.300	2896.200	2896.200	-46.100
AMP	16.710	16.740	1078	17.025	17.080	16.690	16.700	-0.680
NCP	12.020	12.060	14387	12.000	12.200	12.000	12.060	0.000
NCPDP	10.520	10.550	6147	10.544	10.620	10.544	10.550	-0.050
BHP	8.010	8.020	1669	8.100	8.100	7.990	8.020	0.070
RIO	28.900	29.000	8097	20.832	29.100	28.800	29.000	-0.200
NAB	24.910	24.940	1586	25.144	25.320	24.910	24.910	-0.773
CBA	24.988	24.990	4150	25.023	25.350	24.990	24.990	-0.558
WBC	11.910	11.940	23152	12.149	12.150	11.940	11.940	-0.137
ANZ	14.130	14.140	14852	14.250	14.400	14.130	14.140	-0.360
TLS	5.170	5.180	5130	5.250	5.260	5.170	5.170	-0.110
WOW	11.510	11.530	6292	11.600	11.620	11.510	11.510	-0.188
XJO	0.000	0.000	0	2935.600	2935.900	2895.800	2895.800	-46.100
APU01	2894.000	2895.000	5	2912.000	2922.000	2891.000	2895.000	-26.000
XTL	0.000	0.000	0	1717.100	1717.100	1696.500	1696.500	-22.900
APU01D	2894.000	2895.000	5	2912.000	2922.000	2891.000	2895.000	-25.000
XBF	0.000	0.000	0	7415.800	7421.400	7275.200	7275.200	-163.400

11:00am

Code	Bid	Ask	Qty(A)	First	High	Low	Last	+/-
11:00am: Cash got down to 2882 and has rallied back to 2902 so we have some buyers: Stocks are coming back towards their opening prints so WE will soon find out how strong the market is.								
MIM	0.770	0.780	99373	0.790	0.790	0.770	0.780	-0.020
XPI	0.000	0.000	0	2936.000	2936.300	2883.200	2902.400	-39.900
AMP	16.750	16.780	7376	17.025	17.080	16.630	16.780	-0.600
NCP	12.040	12.050	21864	12.000	12.200	11.940	12.050	-0.010
NCPDP	10.550	10.560	10000	10.544	10.620	10.448	10.550	-0.050
BHP	8.070	8.090	6500	8.100	8.100	7.990	8.090	0.140
RIO	29.050	29.100	4550	28.832	29.100	28.800	29.100	-0.100
NAB	25.100	25.110	1425	25.144	25.320	24.800	25.110	-0.573
CBA	25.050	25.060	995	25.023	25.350	24.760	25.060	-0.498
WBC	12.030	12.040	5499	12.149	12.150	11.870	12.030	-0.047
ANZ	14.130	14.170	3250	14.250	14.400	14.030	14.150	-0.350
TLS	5.190	5.200	128302	5.250	5.260	5.160	5.200	-0.080
WOW	11.500	11.510	2098	11.600	11.620	11.508	11.500	-0.198
XJO	0.000	0.000	0	2935.600	2935.900	2882.800	2902.000	-39.900
APU01	2908.000	2901.000	5	2912.000	2922.000	2882.000	2901.000	-20.000
XTL	0.000	0.000	0	1717.100	1717.100	1680.700	1702.200	-17.200
APU01D	2900.000	2901.000	5	2912.000	2922.000	2882.000	2901.000	-19.000
XBF	0.000	0.000	0	7415.800	7421.400	7235.200	7302.700	-135.900

The principles I illustrated in an earlier chapter regarding the opening print is a good tool for estimating market strength or weakness, you should never forget this tool.

11:30am

Much the same as 11:00am -- nothing lost nothing gained although the futures have improved a little.

Code	Qty(B)	Bid	Ask	Qty(A)	S	First
11:30am: One thing you can do for perspective is monitor the BID/ASK quantities to give you an idea of Market depth						
MIM	859142	0.770	0.780	92997	3	0.790
XPI	0	0.000	0.000	0	0	2936.000
AMP	1719	16.780	16.800	8344	1	17.025
NCP	6101	11.970	11.980	2175	1	12.000
NCPDP	1	10.490	10.500	11861	2	10.544
BHP	15123	8.060	8.070	55280	5	8.100
RIO	392	29.150	29.200	269	1	28.832
NAB	4340	25.170	25.180	1322	1	25.144
CBA	428	25.140	25.150	7375	2	25.023
WBC	12288	12.050	12.080	23363	2	12.149
ANZ	1645	14.110	14.120	17402	3	14.250
TLS	185511	5.200	5.210	264820	10	5.250
WOW	10000	11.540	11.550	1911	1	11.680
XJO			2902.00	0	0	2935.600
APU01	3	2905.080	2906.000	22	0	2912.000
XTL	0	0.000	0.000	0	0	1717.100

At least we are now getting some indication that this market has some buyers who are not going to miss this opportunity.

12:00

Code	First	High	Low	Last	+/-
LHG	1.100	1.160	1.100	1.150	0.060
EMP	0.350	0.350	0.350	0.350	0.015
HDR	0.415	0.415	0.385	0.410	-0.015
MIM	0.790	0.790	0.770	0.780	-0.020
XPI	2936.000	2936.300	2883.200	2910.600	-31.700
AMP	17.025	17.080	16.630	16.808	-0.500
NCP	12.000	12.200	11.940	12.870	0.010
NCPDP	10.544	10.620	10.440	10.550	-0.050
BHP	8.100	8.100	7.990	8.890	0.140
RIO	28.832	29.400	28.800	29.300	0.100
NAB	25.144	25.400	24.800	25.320	-0.363
CBA	25.023	25.350	24.760	25.100	-0.440
WBC	12.149	12.150	11.870	12.080	0.003
ANZ	14.250	14.400	14.030	14.140	-0.360
TLS	5.250	5.260	5.160	5.210	-0.070
WOW	11.680	11.620	11.500	11.610	-0.000
XJO	2935.600	2935.900	2882.800	2910.200	-31.700
APU01	2912.000	2922.000	2882.000	2914.000	-7.000

12:00 - The market is showing resilience - we have some stocks in positive territory to Friday.

The worst performers are still AMP, NAB, CBA and ANZ.

TLS is holding the Index back.

But BHP is getting buyers now.

NCP is hanging in there.

The situation is looking a lot more positive than it was at 10:35am this morning.

It certainly helps me to monitor the top 10 as a guide.

Looks like we are in stable territory again.

How many people who will actually study what I have been saying here this morning will be interesting. I wouldn't be surprised if less than 2% of people who ever buy this book will take the trouble.

The fact of the matter is there is much to be learnt, if you can follow what has been going on. The principles of market contact are all here. Maybe I am being sceptical, I doubt it. The practices I follow keep me informed and on the right side of the market. I am never wrong for more than a day.

My experience is that people only read and see what they want to. If it looks benign they avoid it.

2:30pm:

SPI200 today so far.

The market started the day with a flurry and pointed down, reached the balance point area and then came back. Presently we are in a zone of no decision and have been there for many hours.

Good time to be out of the market really and just observe, so far the 2842 low has held. Right now we have a higher low and a lower high on the hourly, there is no resolution until we break out. When that happens then it might be time to start trading again.

Personally I am a believer there is a time to be out of the market, i.e., the times when I can't rely on a solid trend or counter move.

Why beat yourself up trying to enter at tops and bottoms, why not wait till you receive confirmation from the market it is changing direction. If it does so there will be lots of opportunities to profit.

END OF THE DAY:

Post mortem of today's market movement top 10 versus Other's in ASX200: Result Blue chips OK / Broad market still weak!

4:30pm: Evaluate the Top 10

How did they close from yesterday V's Open

Code	First	Last	+/-	
MIM	0.790	0.780	-0.020	Open -
XPI	2936.000	2925.800	-17.300	
AMP	17.025	17.000	-0.380	Open -
NCP	12.000	12.440	0.380	Open +
NCPDP	10.544	10.840	0.240	Open +
BHP	8.100	8.120	0.170	Open +
RIO	20.832	29.753	0.553	Open +
NAB	25.144	25.716	0.033	Open +
CBA	25.023	25.140	-0.408	Open +
WBC	12.149	12.050	-0.027	Open -
ANZ	14.250	14.270	-0.230	Open +
TLS	5.250	5.110	-0.170	Open -
WOW	11.600	11.440	-0.250	Open -
XJO	2935.600	2924.600	-17.300	
SPI200	2912.000	2927.000	6.000	Open +
XTL	1717.100	1718.400	-1.000	
XBF	7415.800	7375.500	-63.100	

This plus the study below should help you align yourself for tomorrow. Top 10 were basically break even – others were down.

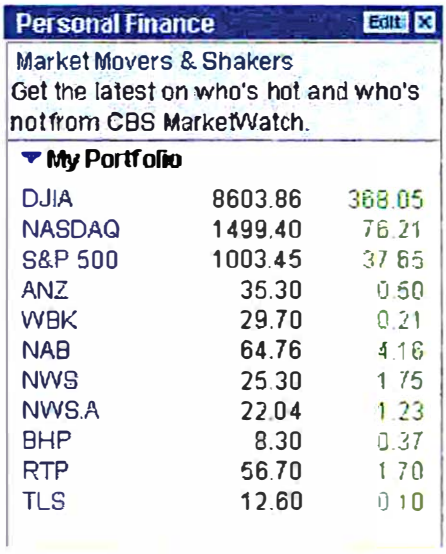
Top 10	ASX200 % content 18/09/01	Total Points 21/09/01	Change	Close 21/09/01 Yesterday	4:30 PM 24/09/01 Today	Change	PTS	Sectors
AMP	3.35	98.6	-2.19%	17.38	17.00	-0.38	-2.2	-2.2
NCP	4.70	138.3	3.15%	12.06	12.44	0.38	4.4	
NCPDP	4.23	124.4	2.26%	10.60	10.84	0.24	2.8	7.2
BHP	5.91	173.9	2.14%	7.95	8.12	0.17	3.7	
RIO	2.76	81.2	1.89%	29.20	29.75	0.55	1.5	5.3
NAB	7.13	209.0	0.13%	25.60	25.72	0.03	0.3	
CBA	5.94	174.7	-1.60%	25.55	25.14	-0.41	-2.0	
WBC	4.11	120.9	-0.22%	12.08	12.05	-0.03	-0.3	
ANZ	4.00	117.7	-1.59%	14.50	14.27	-0.23	-1.9	-4.7
TLS	5.68	167.1	-3.22%	5.28	5.11	-0.17	-5.4	-5.4
WOW	2.07	60.9	-2.14%	11.69	11.44	-0.25	-1.3	-1.3
XJO	49.88	1467.42	ASX200	2941.9	2924.6	-17.30		-1.1
			Futures	2920	2927	7.00		16.2
			Premium	-21.9	2.4	24.3		-17.3

Rest							
Bill Rate	4.50%	Carry	DTE		Fair Value		Low
Expiry Day	28/09/01	$36.09	4	Carry Points	1		2842
Value	$73,175	$9.02	24/09/01	Fair Value	2926		
				Under Value	1		

If after today you guys don't realize what it takes to keep track of the markets then I can never teach you anything.

When you have this information coupled with your chart action you are in a position of knowledge.

6:00am, Tuesday Morning, 25th September 2001



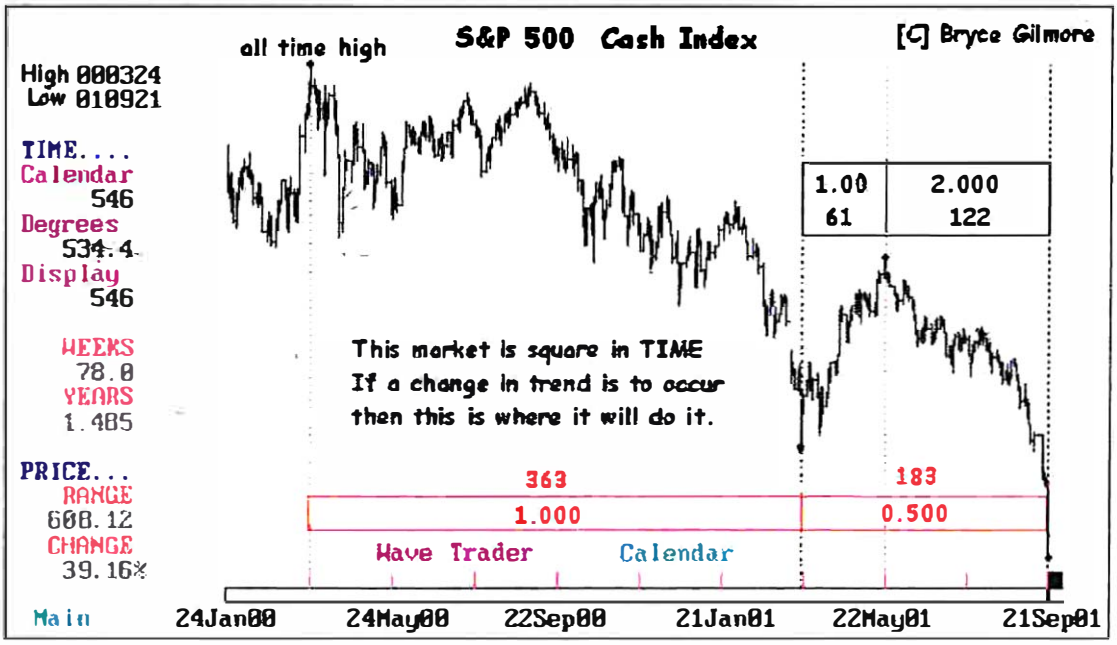
Top Story
Markets Rise
Investors were finally in a buying mood today, pushing the Dow up 367 points and the Nasdaq 76.
Market Update »
Talk About It »
REUTERS
CNN.com
Bush freezes assets of suspected terrorists
Response to attacks on Bush-Chretien agenda

USA - Monday 24th September 2001

This is how we go into the Day session, ADR's indicate UP.

I posted this chart to my WTD group on the 22nd September, which was a Saturday, exactly as I am presenting it here. This time relationship has the potential to signal a major low in this market.

S&P500:



The S&P 500 had been working to a rhythm in time.

1. **The all time high to this stage was on the March 2000 Equinox.**
2. **The March 2001 low was a year from the top and in 61 days the market retraced exactly 50% of the decline before turning south again.**
3. **The low in September was 6 months from the March low.**
4. **The low in September was 18 months from the 2000 high.**

The overall effect on the US economy and the effect on US consumer confidence is at present unknown. The US economy is in recession, for how long we don't know. The effects are sure to be felt world wide.

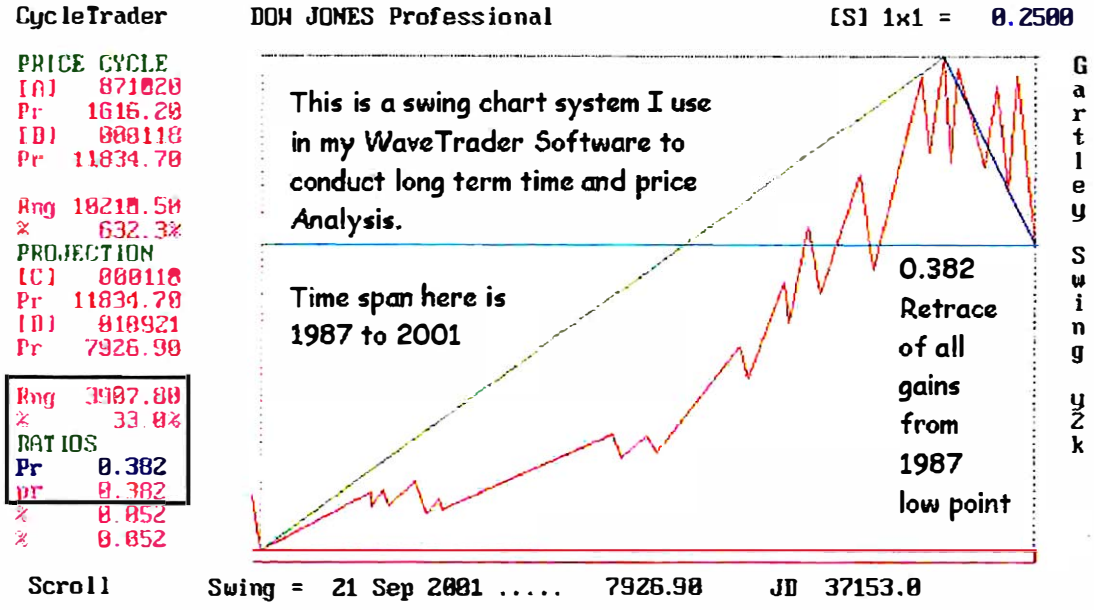
What we do know though is that massive labour retrenchments have been taking place this year and this event has exacerbated further unemployment. What effect will that have on the market?

On the positive side is the massive stimulus that the Federal Reserve has poured into the economy. They did the same thing in 1987 and the market stabilized after the October crash.

The Dow Jones Industrial Index 21st September 2001

The price decline during 2000 and up to the September 21, 2001 low was an exact 38.2% retracement of all the gains from 1987 to 2000.

In Elliott Wave terms this retracement is consistent with a major wave termination.



The S&P500 together with the DJIA have exhibited technical evidence a change in trend is possible.

All the market has to do now is prove it has exhausted the down trend by reversing back up.

Time will be the proof in the pudding, as soon as I can identify confirmations of stability I will begin trading.

The Sydney Futures Contract has also completed a 38.2% retracement to its rises from the 1994 low – which was also a major bear market low.

Technical details of the major waves in the SPI up until 1998 are contained in my book Dynamic Time and Price Analysis of Market Trends [c] 1998.

There is an excellent chance now that we have seen the bottom in these markets for quite some time.

Chapter 17:

S&P500 and SPI200 Index Futures Trading:

Index markets such as S&P500 and SPI200 trade with most of the volume being conducted in the nearby month even right up to several days prior to expiry.

Both complexes trade March, June, September and December futures months so their traits are similar.

Index futures can trade at a premium or a discount to the underlying Cash quotes, i.e., they can trade above or below fair value.

Futures contracts have what is deemed a fair value. Fair value is the Cash Index value plus the carrying cost for the number of days to expiry.

FAIR VALUE:

The futures contract is traded on margin, the total value of the contract is $25 per point. The market close yesterday was 2939 and at $25 a point equals $73,475.

The December futures contract expiry is 31st December 2001, if you calculate the cost of money for the 97 days to expiry and then divide it by $25 it represents the carrying charge built into the contract price. Fair value should be the carrying charge plus the ASX200 cash index.

This is how we work out if the contract price is trading at a discount or premium to fair value.

Close of business - Monday 24th September 2001

XJO	49.88	1458.79	ASX200	2924.6	2924.6
			Futures	2939	2939
			Premium	14.4	14.4
Rest					
Bill Rate	4.00%	Carry	DTE		Fair Value
Expiry Day	31/12/01	$781.05	97	Carry Points	31
Value	$73,475	$8.05	25/09/01	Fair Value	2956
				Under Value	-17

December futures closed at 2939 a discount to fair value of 17

EXPIRY:

The September contract this year expires at 4:30pm Friday the 28th, the futures settlement price will be even with the ASX200 cash settlement. The cash settlement index value will be known by 4:15pm so any final trading between 4:15pm and 4:30pm will adjust to it as final squaring of positions takes place.

SPREAD BETWEEN SEPTEMBER & DECEMBER:

In between now and the 28th the September contract can trade at a premium or discount to cash as can the December contract.

Since we have already calculated the fair value on the December contract at a 31 point premium right now, it follows that the correct spread between December/September should be 30 points.

Sept	December	September	Spread	Cash	Sept/Cash	Dec/Cash
12	3150	3134	16	3108.5	25.5	41.5
13	3148	3135	13	3126.4	8.6	21.6
14	3123	3112	11	3100.8	11.2	22.2
17	3000	2989	11	2955.3	33.7	44.7
18	2999	2994	5	3010.1	-16.1	-11.1
19	3054	3043	11	3034.9	8.1	19.1
20	3002	2990	12	2983.3	6.7	18.7
21	2930	2920	10	2941.9	-21.9	-11.9
24	2939	2927	12	2924.6	2.4	14.4

In the past nine days the spread has been between 10-12 on average.

Unfortunately there is no consistency between the cash and the futures to judge which way the Spread will go, i.e., in or out.

Theoretically the spread should widen towards 30 if the market is rising.

PREMIUM & DISCOUNT MARKETS:

Index Futures Contracts tend to trade at a premium to fair value in strong up moves and way below or even at a discount to the CASH index in strong down moves.

If a market is constantly trading at less than fair value you will find that it is susceptible to fast thrusts to the down side. The reverse applies when the contract is trading regularly at above fair value quotes so it is something you should be monitoring all the time.

CONTRACTS APPROACHING ROLLOVER:

If you are making your trading decisions based on technical indicators you will need to keep what we call: -

1st Month Continuous Futures Contracts

These are constructed by just appending the current 1st month contract prices from expiry of the previous month to the expiry of the current month and keep repeating the process.

You will need them because the trading in the futures months is so thin prior to the contracts becoming the front month there will not be any consistency or long term information to rely on.

The price retracement levels and any price projection levels for support and resistance are completely valid on 1st month continuous chart as if it was the current front month trading, irrespective of any changes in fair value carry.

Time cycle analysis requires a long term record of bull and bear trends from the past to be viable.

TRENDS & CYCLES:

Trends and cycles should be viewed in the context of:-

Intra-day – Minor – Intermediate - Major

The major and intermediate degree can be analysed from the 1st month continuous daily chart. The minor and intra-day can be worked from a 60 minute chart down to a 5 minute on the front month data.

Your guide to the future consequences and implications of a reversal in trend in degree of the cycle can be used to establish targets in degree.

The market works its way along everyday moving up and down in degree until the lesser degree moves establish larger degree events.

A series of intra-day trends establish a minor degree move, a series of minor degree trends establish an intermediate degree trend and a series of intermediate degree trends establish the major degree. This is fairly simple to understand if you study the principles of Elliott Wave.

PREPARING FOR THE FUTURE:

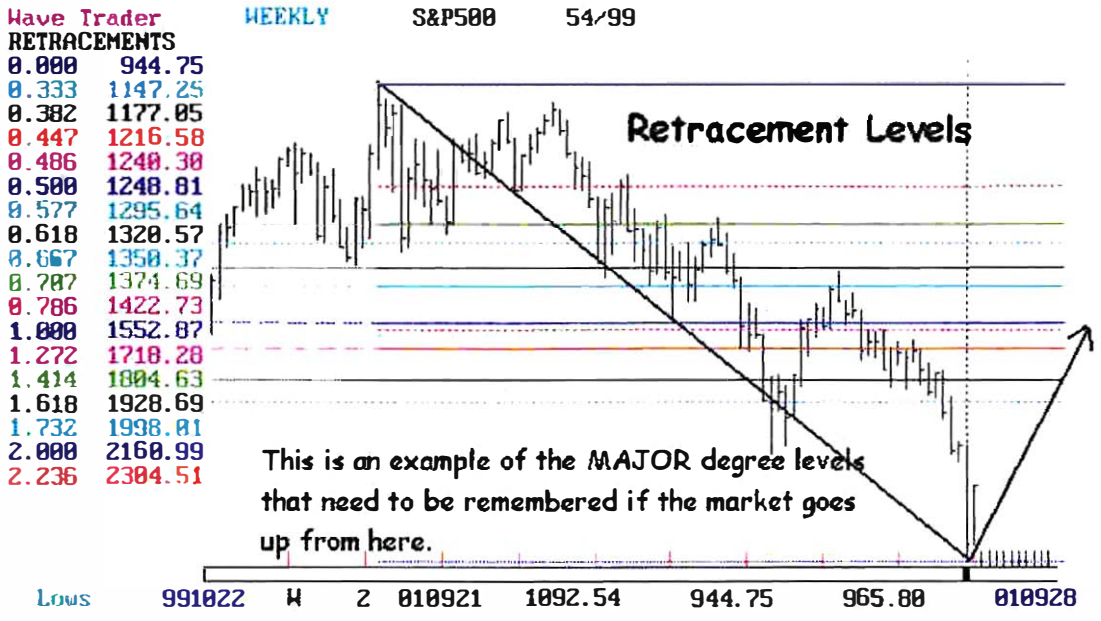
You can't trade without a plan! Your plan must be aware of the obstacles that any trend in force is likely to encounter technically.

The first part of your plan should be to calculate the price level obstacles that your market will encounter along its route to wherever it is going.

There are 3 reliable techniques for working out DYNAMIC PRICE LEVELS that could signal support or resistance that generates market reversals and tradable moves. These work in all degree of price flow. The geometry of markets regenerates itself from intra-day through to major degree make no mistake about this.

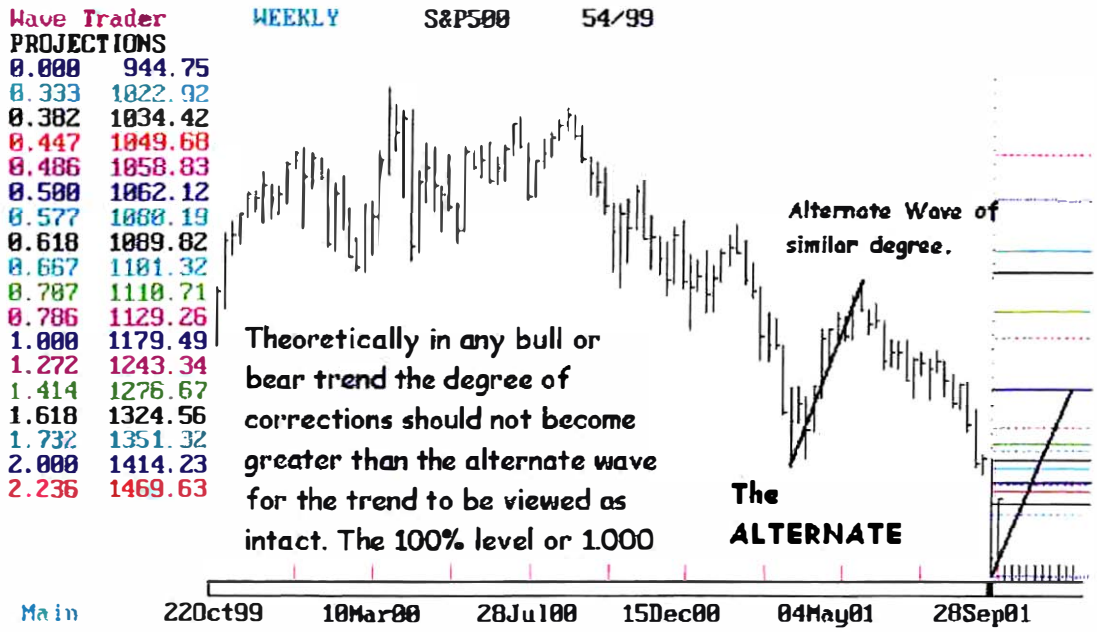
To begin with each day you need to prepare with the intra-day and minor degree. Each week you need to prepare the intermediate and when required you need to prepare the major degree. If you don't the market will react off some level that confuses you and you won't be sure what to think until you discover why.

The most common Dynamic Price Levels used by all professional traders are retracement levels. The best approach is to use CASH and Futures for the Major degree.



There is a 0.236 and 0.250 level that should be considered when you are looking at waves of this degree as this is the total decline from the 2000 high to September 21, 2002.

ALTERNATE WAVE LEVELS:



It is important you know the RATIO LEVELS of the alternate wave of similar degree.

The reason is that all waves of similar degree should relate by ratio to validate the Elliott Wave Theory of markets.

If a trend, be it a bull or bear trend of any degree, overbalances the prior alternate wave of similar degree the overall trend could be seen as changing.

In the example of the S&P500 above – once the market were to exceed the 100% level, from the September 21 low, of the prior Alternate wave the back of the major degree bear market could be assumed to be broken and the September low could be classified as the end of the bear market from the 2000 high. This being the case you would assume that the September low will hold as a multi-year low.

Forecasting future possibilities of market action relies on understanding market structure. Structure is the clue to the future. In the case of the S&P above the Alternate Wave we are measuring off terminated its run up on a 50% retracement of the total decline prior to its unfolding.

When we study the structure you could say that if a major degree rally unfolded from here it would need to extend beyond 1 x 1 of the alternate. This level coincides with the 38.2% retracement of the total bear market to the September 21 low.

REVERSE CROSS method:

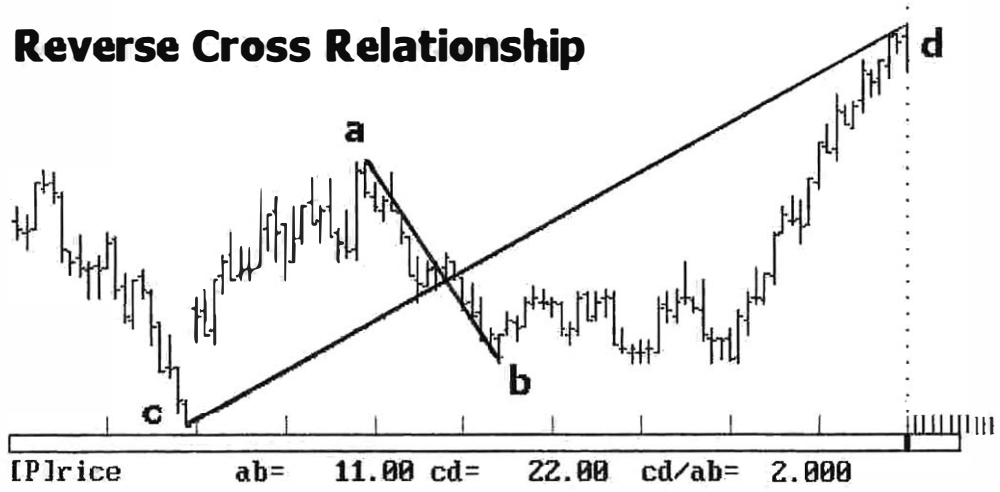
The reverse cross method I have developed comes from the experience of the theory that states, "all waves of similar degree must relate in amplitude by ratio".

Most Elliott Wave practitioners expect all direct waves to relate by ratio! In most cases they will but there are always exceptions to every rule.

A direct ratio relationship is a term I give to a simple retracement relationship, i.e., consecutive waves relate by ratio. For instance an advance of 20 points is followed by a decline of 10 points becomes a 50% retracement. This could be followed by another advance of 20 points. The new advance would then relate by 200% to the 10 point wave and 100% of the 1st alternate advance. This is keeping the explanation simple because they can relate by all different ratios that adhere to sacred geometry.

The REVERSE CROSS method comes into play when a new trend begins from a reversal that occurs when it is unclear how the first two waves of similar degree related, i.e., A market makes an advance of 14.5 points which is followed by a retracement of say 11 points, this equates to a 75.9% retracement. The fact that it does not fall on something that is clear cut, e.g., 50%, 61.8%, 70.7% or 78.6% creates a problem for simple analysis of price.

Somehow the next trend reversal has to relate by price amplitude so it must follow that somewhere in the structure there will be internal price relationships that connect the complete structure. This example demonstrates how the waves relate geometrically.



GEOMETRIC RELATIONSHIPS AND THEIR IMPLICATIONS:

By examining the geometric sequences that occur within the market structure one can determine the future implications of the trend in progress.

For instance if a market reverses trend on any RHYTHM of price relationship it should continue that reversal until such time as it hits another relationship in the current sequence.

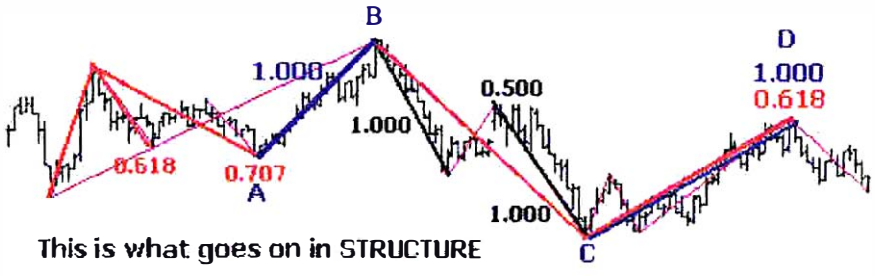
If it does not and breaks back quickly to negate the sequence you are getting a signal that the prior trend is still intact and you need to look ahead for the next RHYTHM point for a potential reversal.

By knowing how all the thrusts relate geometrically provides a form of discipline that allows you to know when to buy or sell and where to place your stops.

The sequences of waves of similar degree in the S&P500 and the SPI200 will in most cases follow a pattern that conforms to the Elliott principle. Now that does not mean they will relate by 0.382, 0.500, 0.618, 0.786, 1.000, 1.272, 1.618, 2.000 and 2.618. This happens regularly but the sequences can contain ratio relationships falling on 0.447, 0.577, 0.707 and 1.414, 1.732, 2.236. These are the roots and square roots of 2, 3 and 5.

For ease of analysis it is simpler to just isolate the previous 4 waves of similar degree and work with them, this is known as the AB-CD method. You need to find binding mathematical relationships between these four points to justify a reversal of trend in that degree. So as the market moves along you just advance your analysis along.

You should keep a record of the ranges the market tends to repeat in expansions and in corrections as these are valuable indications that price is contained or it is overbalancing and the trend is changing.



This is what goes on in STRUCTURE

FUNDAMENTAL NEWS & ANNOUNCEMENTS:

As far as Stock Index Futures are concerned I can't stress the value of keeping track of the fundamental news surrounding the markets enough.

Profit reporting periods and PE ratings and retail sales reports.

Federal Reserve Announcements on Interest rate policy.

Economic conditions forecast.

Shock announcements of Company failures.

Unemployment reports.

Consumer Confidence Reports.

The reason these things are so important is because the news services report everything these days and make such a big deal out of it. I constantly watch Bloomberg when I am trading, if there is some report either due or being announced that may cause the market to sway the traders – I know about it. Reports are especially useful when the market is up against a geometric support or resistance – the energy of the news pushes the market through or away from the chart point into a reversal or a continuation.

Bloomberg also has another additional feature in that it will continually interview company CEO's and traders or market makers.

The S&P500 pit has some exceptional local traders and Bloomberg manages to interview them on occasions. At times they interview one of the biggest locals in the pit for his opinion of the market strength or weakness.

The real point about keeping informed is that you don't get any surprises. It also allows you to justify the geometric relationships you are working off and helps assess their chances of success.

One thing I have noticed over the years is how the market will go into a lull prior to an important market report and when the report is released the market will head off in one direction or the other taking all the stops on the way. Once the stops are exhausted the locals will fade the move and send the market screaming back in the other direction.

Don't be lazy if you want success, make sure you stay informed.

ORDER PLACEMENT and TRADING EXECUTION:

In the old days all we had was the telephone to communicate with our broker, even though this condition is still popular we now have lightening fast electronic communication systems that send orders direct to the pit or the Globex system.

If you ring the broker he has the choice to electronically transact your order or he can call the floor and give instructions.

Fills can be executed in 2 seconds on the Globex system and there are various platforms you can use to be your own broker. These systems take a little time to become comfortable with and can save you large amounts of brokerage commission if you can master them.

It is important that you know how to place an order in the system if you want to save time and money. It is important that you place orders in the right sequence if you want done what you have in mind.

Three types of orders that are simple and cover most contingencies are: -

MARKET orders
STOP orders
LIMIT orders

Market quotes have a SPREAD – there is a BID and OFFER PRICE, the bid price will be below the offer quote.

BID quotes are coming from people who have BUY orders nested in the market.
OFFERS or ASK is the price people have SELL orders nested in the market at.

MARKET ORDERS are the simplest to execute – You call the broker and tell him: -

BUY or SELL 1 December S&P500 at MARKET

The order will be filled at the earliest time that it can be and at whatever price the market is trading.

BUY orders are executed on the OFFER

SELL orders are executed on the BID

STOP & LIMIT ORDERS:

The purpose of a STOP ORDER is to enter the market in a direction either above or below the direction it is moving in. Applicable to buying or selling BREAKOUTS.

The purpose of a LIMIT ORDER is to enter the market in the opposite direction to where it is headed at the moment, i.e., you expect it to stop and reverse direction somewhere in the vicinity of your order.

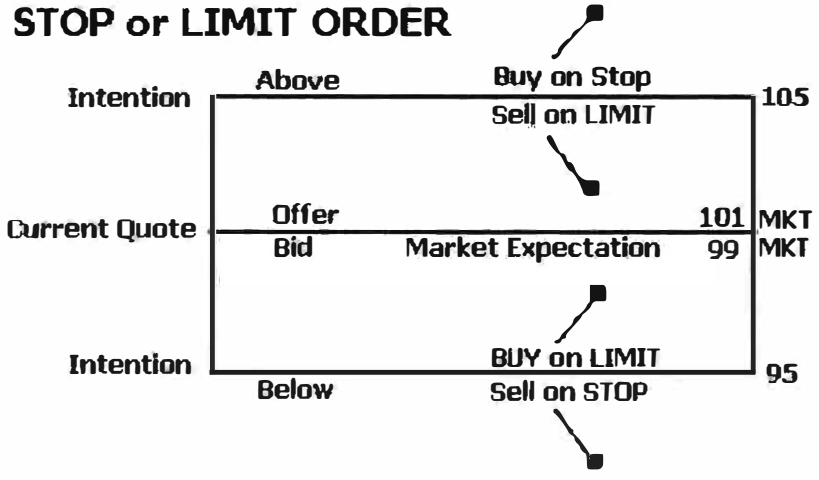
A good rule of thumb if you are placing a breakout sell order is to use a STOP order to enter, as soon as you get a fill you place a STOP order to buy above the market price as your stop loss.

If you are buying a breakout you do the same thing in reverse.

If you are intending to SELL at a higher level than the market is currently trading you place a LIMIT order to sell at the higher price. You can place your order to exit on a STOP in advance above the LIKIT order to sell because if the first one goes off the second is sitting there as protection.

Same goes in reverse for buying on a LIMIT.

Be very careful never to place an order buy on a LIMIT if the market is trading below your order price because all it becomes is a MARKET order. If the market is above your STOP a buy goes market as well. If you are not careful with some of these on line Pin Ball machines you can get a fill you didn't want because you made the error.



PATTERNS TO LOOK FOR REVERSALS:

SELLS:

1.000 to 1.000 alternate wave fulfilment or very close.

0.382 or 0.500 retracement on low volume after a strong thrust.

Grinding 0.618 retracement with declining volume after a strong move.

Double or Triple tops with a false break of a tick and a reversal bar.

Sell any double or triple bottom that breaks down.

Sell below any OUTSIDE REVERSAL BAR in any time frame over 4 minutes.

Sells are better on low volume because it means there are no buyers to meet the sellers.

BUYS:

1.000 to 1.000 alternate wave fulfilment or very close.

A 0.500 or 0.618 retracement and a double bottom or a false break on volume. Buy the double bottom on support or buy the break of the 1st retracement on the way back up.

Buy equal waves retracements that have been repeating in an uptrend, if they are 38.2% retracements all the better.

Buys are better on breakouts once you establish the market has support.

Buys are better on high volume because the sellers are being met adequately.

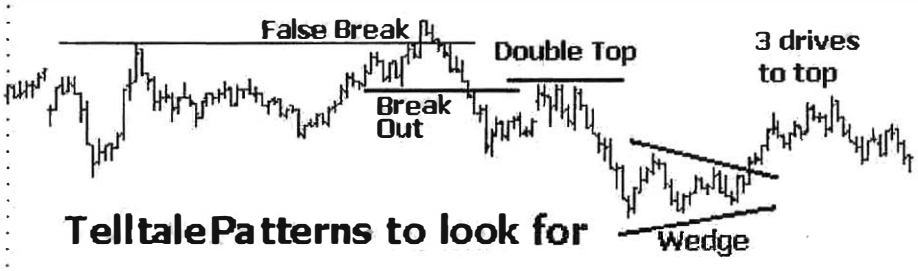
These are just a guide for you to think about, there are plenty of other places or "lines in the sand" created by the market itself that offer breakout or resistance trading opportunities. False break failures are especially interesting situations to monitor.

Bottom Line is just keep your eyes and ears open and you will be OK – Always try and find a chart location that will represent support or resistance so you can place your stop loss outside of it if possible. This way if you get hit on a stoploss you will know you were wrong.

PATTERNS - reversals:

These examples are from an S&P500 - 5 minute price series.

If you just take the time to look into a series of waves you will uncover the intricate geometry contained within.

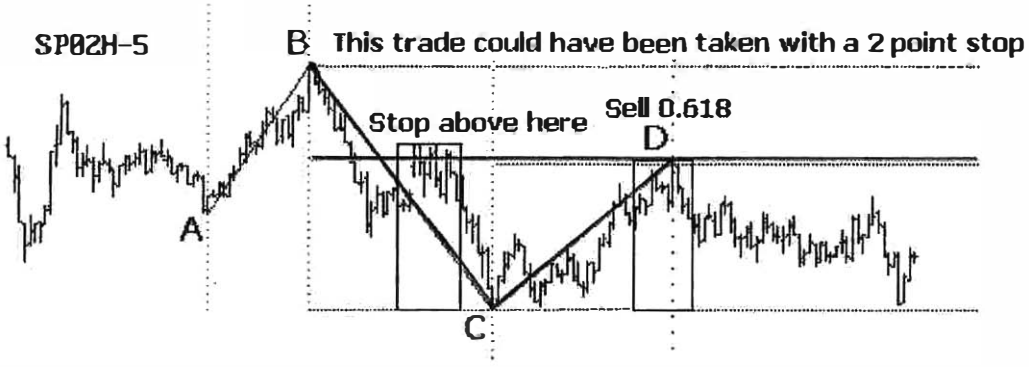


Combine the geometry with the pattern signals and you can see the opportunities clearly. It's amazing how simple it is.

TAKING THE TRADE:

Taking this trade on the E-Mini when everything was in your favour, with a 2 point stop would have repaid the price of this book in 30 minutes with a 1 lot trade. The 30-minute trade back to the vicinity of a 50% retrace of 15 points was worth 7 points. If you had a 5 lot or a 10 lot the opportunity was $1750 to $3500. If you had held as a position trade the potential was more. You could have closed out half quickly, moved your stoploss to breakeven and gone camping.

You have to have a plan and then execute it flawlessly.



To enter you would place a LIMIT order to sell prior to the market reaching the 0.618 and 1.000 to 1.000 level – The LIMIT order would need to be 0.25 or 0.50 below the calculated target because you can only get filled on the BID. You could have put the stoploss order on in advance as a STOP order to buy back or double it up as a stop and reverse because if the market broke above the stop area it certainly had the potential to go 1.618 with the 1.000 – 1.000 wave, i.e., 15 x 1.618 = 24.25 for a chance at a double top of higher degree. The double top was 24.5 from the low on the chart.

Before you start trading you need to do enough research on the complex to build up your belief system so you can put a plan together.

Trading without a plan is dangerous to your account balance. This particular example is a trade I took, I exited with a gain of 6 points when it broke the 50% of the range and then reversed back up for a correction.

My personal trading policy is to take the quick bites I expect from a trade rather than aim for the maximum. My view is that I can re-enter the market easily on the next opportunity. Minimum expectations are always safer than maximum expectations. Also I don't want to hold over night positions.

A lot of traders do not do as well as they should by having maximum expectations. This is because the market will do something they do not expect, or they will read something into the corrections and close out the position at a worse profit than they originally could have had.

Anatomy of a trade

Small bites continue to add up:

If you were to make 6 points a day on a 5 lot E-Mini account over 150 days (there are 250 trading days a year) – the result would be approx $200,000 a year after commission. When you can do it with very little risk it becomes an appealing occupation.

All you have to do is wait for the set-ups and stop shooting off the hip. That's one of my biggest faults that I have to battle with most of the time.

Another thing is that the more you catalogue your trading opportunities and know what your plan should be in advance, the sooner you will become a consistently profitable trader.

DAY TRADING versus POSITION TRADING:

Day trading with close stops allows you to get a result much faster than a position trade. Position trading requires you to hold through corrections, if you are going to do that you need to study the corrective ranges to see what it will take to over balance a previous series of corrections, i.e., if the last series of corrections say were 5 points or less then you would have to allow at least 5 points leeway once your position ran more than 6 points into profit. Now that can become a lot of equity draw down and you can't be sure that a correction to any thrust will not exceed the 50% balance point and go all the way back to start. It may well be that a correction will run 61.8% or even 78.6% so you have to be prepared for that to happen as the geometry may be changing after each completed ABCD, we don't know for sure. Odds are it won't but that is the risk you take by holding out for the higher wave degree result. A profit is a profit and you will never go broke taking a profit all the time.

ELECTRONIC TRADING:

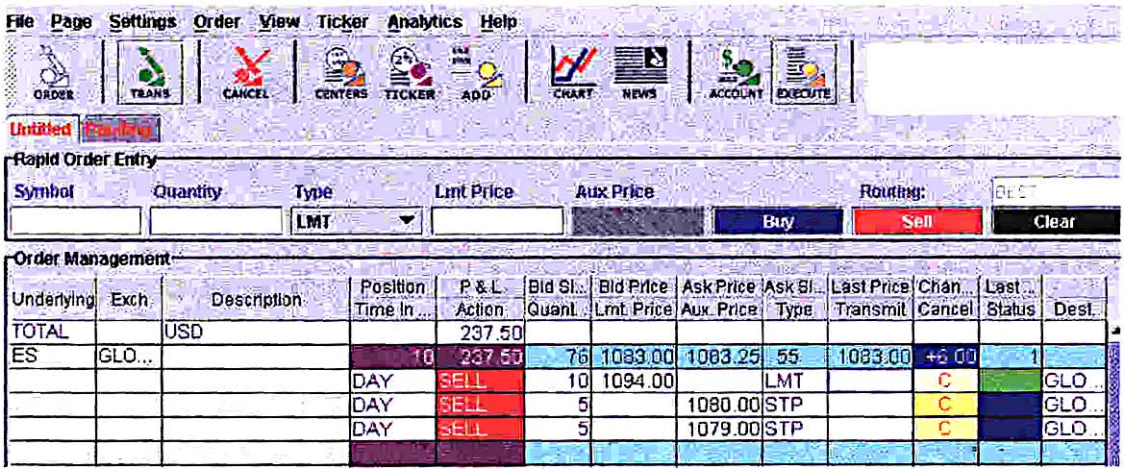
This is possibly the best innovation that has happened in this industry in all the time I have been trading.

I am looking forward to the day that all exchanges go fully electronic, although I can see that some never will because there are some pitfalls when the system breaks down.

Mostly though these days if there is a major trauma with the system the exchange will suspend trading in the pit until it becomes an even playing field again.

PLATFORMS:

These are getting better and better all the time. The first one I used created a few problems for me but now I have adjusted my trading plan around the one I use.



This platform is from IB – Interactive Brokers – the top row is the quotes with the positions and the C's in yellow are working orders.

I only added this in this book the second addition just as an example as I am looking at using it now. I have just been doing a test drive on it and find it easy to manage compared with some other systems.

IB are setting up to do the SPI electronically it will be faster than present and cheaper.

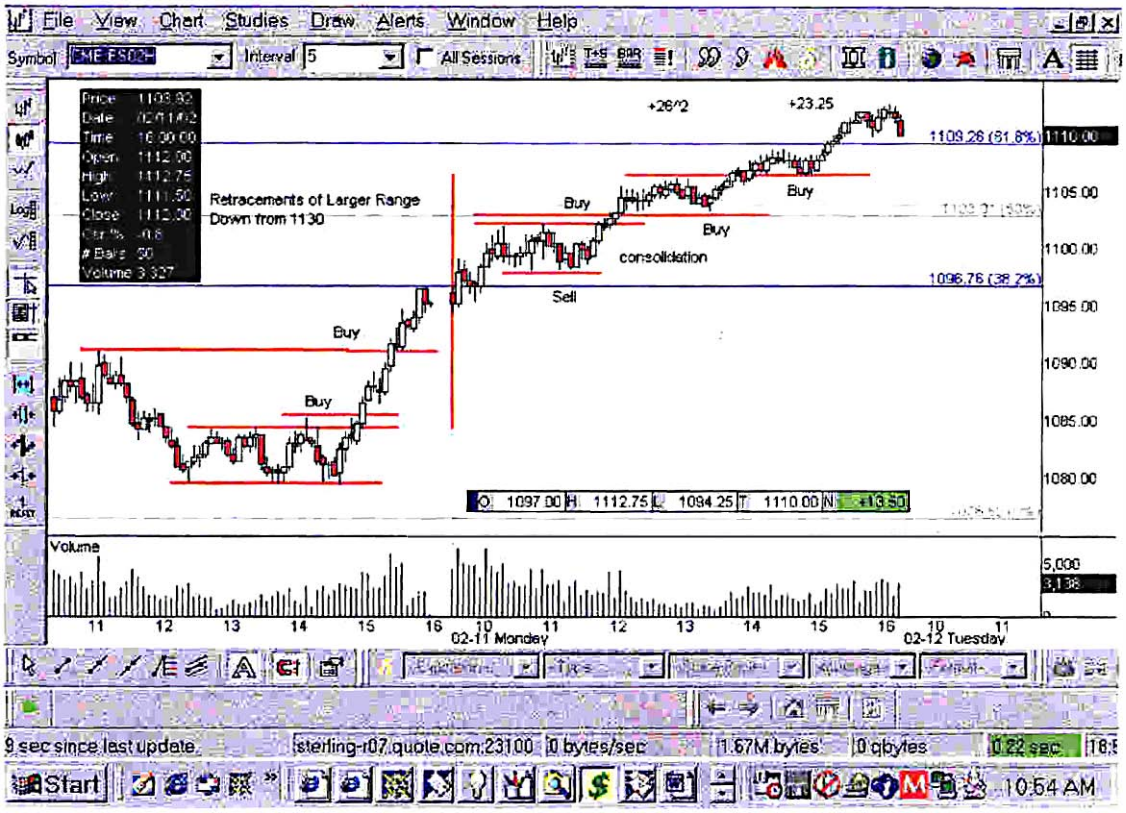
You really need to have all the settings right with these things or it is so easy to click the wrong spot and get a fill you don't want.

Anyway onwards and upwards.....

LIVE QUOTES & CHARTS:

For live quotes and charts I am now using Qcharts for the American Exchanges. Qcharts covers all American commodity and Stock prices.

So far I have found this to be the best platform I can get because it allows me to export data to disk files that I can upload into an intra-day module of the WaveTrader and perform RATIO analysis far faster and more accurately than any other system on the market today.



Once you are equipped with the right tools you can set to work in the right frame of mind. This is very important

Just observe on the chart above how the market consolidated prior to the 50% retracement level. This is what I call building up the energy to break out. The break was clean and a little later the market came back for a look at the breakout level and then rallied again. This is an indication that the market is holding the uptrend.

Reading what the pattern is telling you allows you to comprehend why the market is doing what it is doing.

Chapter 18:

Day Trading Short-Term Patterns:

Day trading is the surest way of making money consistently.

Taking small bites one at a time the same as you eat your dinner when everything on your plate is to your liking.

Some traders use 1-minute charts, 2-minute charts or 5-minute charts. I prefer the 1 & 5-minute chart to identify the patterns I like.

The important issue is in identifying "odds on opportunity" where risk is defined and can be kept small.

In this lesson I am going to give you some patterns that represent "set ups" I would trade and the reasons why.

Two things before we start:

1. **You need to be set up with online information that charts in the time frame we are trading.**
2. **You should have access to Volume and Course of sales information.**

There are trades that should be taken because the risk is small compared with the reward if they work. Many trades will fail but with small losses and they can be attempted again if the same conditions prevail.

We have no real way to know if they will work when we take them except that all the patterns I am about to describe have a high probability based on past knowledge of trader mentality. It all gets back to trader behaviour and what will motivate traders to switch position and let the market flow.

Day trading is an art, like a brush stroke an artist would make because he sees the beauty of it. Day trading successfully relies on a fleet of foot mentality to risk management. You cannot afford to fall in love with positions as you can reinstate them just as fast as you quit them.

Everyday the market opens it provides information on market sentiment. So the opening price is our first clue to where we might be headed on the day. If we watch the news we get a better guide to the market sentiment that will more often than not rule the day.

BEFORE ATTEMPTING TO DAY TRADE:

Before you even attempt to day trade you should have a very close feel for the general market position, i.e., You should know the longer-term probabilities of trend, i.e., know the Commercials versus the Funds and the average Specs positions, you should know the daily problems likely to be encountered from any exchange announcements, Federal Reserve announcements, USDA announcements, Weather forecasts, Earnings estimates of major companies, Consumer Confidence reports and so forth.

Primarily you need to know where the Major, Medium and Shorter term PRICE levels of market support and resistance lie.

If you know these things and keep your news service running while you trade you then have a massive advantage for taking advantage of the short-term patterns the markets continually bounce up and down off.

Markets have a character when you get to know them because many of the operators have developed habits that are ingrained in them for years. The successful traders rule the roost in any market and their experience tells them to behave in certain ways when price activity dictates so.

It is interesting because successful traders are so used to doing what they do, they don't even give it a second thought. They just keep buying and selling on rules they have developed for themselves and continue to do so if the market flow keeps confirming they are the right way around.

There is nothing magical about it, they just consider they are at work and act accordingly. The novice and system trader spends so much time deliberating what he will do next he loses sight of the flow the market is continually moving in.

Trading is a business for the professional trader, it is not a part time occupation, and he must trade and take what he can get from the "fools" because that is his job. He has habits and he is predictable because of his occupation. So if you want to mix with the professionals you need to know what they are thinking or what the "fools" are missing.

It is that simple.

If you understand what you are dealing with and why you can move in and out of positions as it suits you to.

CANDLESTICK CHARTS:

Personally I prefer the Candlestick chart format because the colours alert me to what the market flow has been doing in terms of opening price versus closing price on the individual time periods.

If the price is declining then I see RED BARS, if the price is rising I see green or WHITE BARS, when a reversal pattern is in play the colours reverse. If I use Black and White Candlesticks the message is the same. It just saves thinking to hard about where the BAR opened and where it closed.

Market Momentum becomes visual
White Bars are UP bars where price opens low and closes higher.
Red Bars are down bars where price opens high and closes lower.
CandleStick Charting
The range of each bar also alerts you to activity

This is a Qcharts format I use – the green and red candles I also display are from my Bourse Data online system.

This is a format I rely on to tell me what the momentum of the trend is doing. I can see momentum, congestion and support and resistance just looking at the chart pattern this way.

As the price runs into chart support or resistance I can see it visually as trades begin to affect the price level.

If the extreme high or low is on a level I think is important then the number of trades at the extreme price become important to me. Mainly because if there is going to be a reversal the volume at the high or low price should be minimal because the market has run out of buyers or sellers at that level, i.e., It is not facilitating trade at that level.

Day trading requires instant action if you want to control risk so it is extremely important that you recognise the support or resistance areas quickly if you want to place close stops.

TYPES OF TRIGGERS TO LOOK FOR:

Every trade you take requires a trigger to pull, only two things are important: -

1. **Low risk – enter at a known critical point with a tight stoploss.**
2. **Opportunity that the move will run in your favour.**

This might sound overly simplistic but that is what trading is all about, outwitting the "fools" who are around the wrong way.

Markets are just a medium of exchange, the more buyers you have the price goes up, the more sellers you have the price goes down. If buyers and sellers are evenly mixed the price congests into a tight trading range until one side overwhelm the others.

Now it is not that hard to see it happening before your very eyes if you have the right information flashing in your face.

If buyers overwhelm the sellers and prices move to higher levels then sellers who are aware will quit their positions and to do that they become buyers. This forces prices to thrust higher until they have all got out or reversed position. The same affect occurs in reverse if sellers are overwhelming the buyers or long position holders.

Mostly the price increases or decreases are small affairs but on occasions some fundamental or technical reason causes extreme or extended swings in price because the "firm" holders of positions get shaken out or start running scared.

We see this as extreme volatility on wide range days.

The next thing to remember is that most of the trading volume on any given day is coming from traders who go home "square", i.e., they go home flat without a position. Now because of this phenomena the markets will generally gyrate up and down throughout the trading session. For instance a bullish move could begin early in the day, move along for several hours and then sell off in the afternoon when the day traders head for the gate. Sometimes very late in the trading session we can get large tradable swings against the established daily trend. Then the next day they start off the same process again.

Trends accelerate from time to time because sooner or later the heat becomes to hot for the campers who are around the wrong way. These are the days you want to be in there taking advantage of them.

Trading is pretty simple if you understand what you are up against!

THE MAIN TREND V's A CORRECTIVE TREND:

I've always been an advocate for trading with the "Main" trend. By this I mean if we have had at least 5 up days with only 1 down day the "Main" trend is UP and vice versa. Corrections in main trends seldom endure longer than two days, when they do they could be signalling a complete change in the "Main" trend.

Whichever the "Main" trend is then that is the direction I look for trades in. Sometimes you can get wrong footed for a day or two but over time it pays to try and go in the direction of the "Main" trend.

If the market is going up one or two days and then down one or two days you are in a trading congestion phase and you just have to decide which direction provides the best opportunity.

Once you get in step with a market and watch the larger degree picture you will find day trading a lot easier.

MARKET MECHANICS ARE EXTREMELY IMPORTANT TO DAY TRADERS:

Professional traders know about the 50% balance point phenomena in market trends, they know about the opening price phenomena, they understand a 61.8% retracement and they know all about double tops and double bottoms, trendlines, moving average stops, etc., and they are prepared to wager money on these market way points, in fact they are looking all the time to exploit these situations.

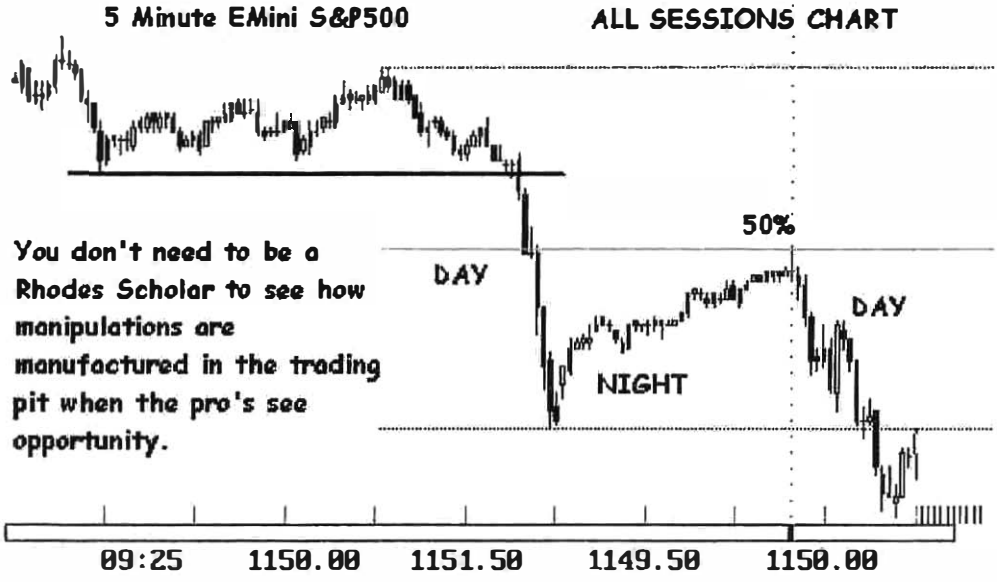
For this reason they become predictable. They also become predictable because they tend to trade heavy in the early hours of the market session, take a break and then come back hard later in the afternoon session. Take a look at the general volume patterns during the day. If the volumes stay high all day there is action.

Professional traders are the smartest guy's walking around this planet, never under estimate them. Try and join them, they create the lead and push the markets through the critical levels.

Professionals will send out feelers to see if there is any interest on the other side of a support or resistance level, it's called testing the water.

Big traders don't sell or buy at one price all the time they keep selling or buying more while the market moves in their direction because they want to push it along.

Sometimes if it is going against them they will continue to buy or sell until they can exhaust the guy's pushing them. It is amazing how many times big players try and squeeze each other. Big traders exploit news announcements and unbalance the small market player's you better believe it because it is true.



The more you study the behaviour of the market makers and the professional traders and understand that 90% of all the money traded by novice's ends up in their hands you will see why you need to know their habits.

You have heard me refer to the market as a "money tree" before, well it is to those that know what is going on.

Anyone who thinks that Mars, Venus or Jupiter are going to make them a fortune in the market is crazy. In fact they are worse than crazy, they should be committed for stupidity.

To succeed you need to understand technical analysis, how professional traders think, what they act on, watch the news, study the positions of the commercials and keep your work up to date.

Once you can do that you are home free.

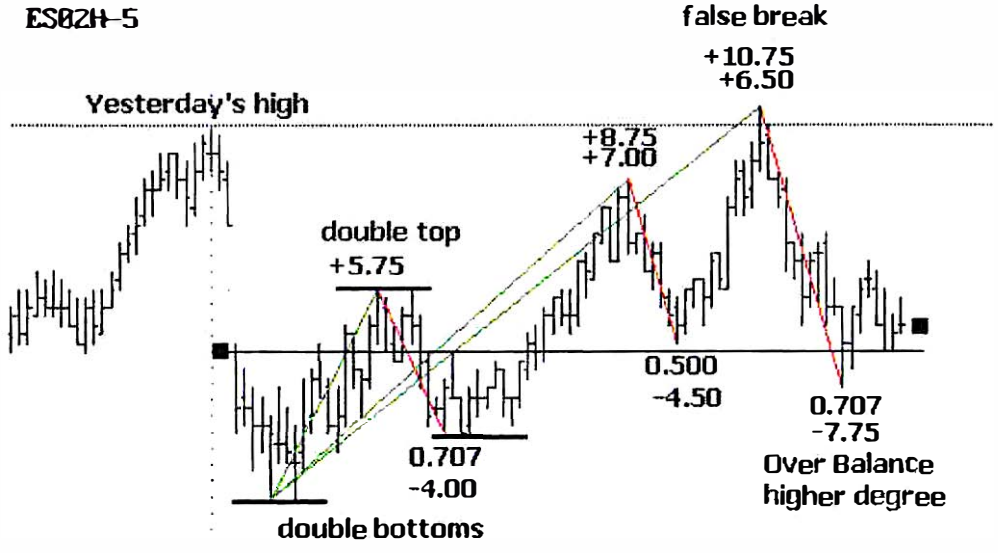
I've decided to re-write this whole chapter since the first edition because there is so much more to be said than I covered in the 1st edition and I thought most people would know that. Alas I have found out otherwise again.

So I have to go back to start and lead off with the really simple set-ups you can try and take advantage of. You have to realise that the short-term market action is like an elastic band. It really does not matter what the long-term trend is to day traders as they will buy on patterns and geometric retracement levels at any time. They will trade against the medium term trend at the drop of a hat, that is what makes the market.

DOUBLE TOPS and BOTTOMS:

Probably one of the best opportunities for pattern traders is the old double top or bottom pattern. First of all you have a solid place to apply your stoploss and also have the opportunity to reverse the other way if it does not work according to plan.

Using a 5 minute or 1 minute chart helps define the resistance on a double top or the support on a double bottom. It also helps if you can determine some geometry at the extreme points so you know a reversal has some validity.



Each day you should go over your charts and review what the market did that day. By doing this you will learn how that market "ticks".

Before long you will be equipped to recognize trading opportunities.

This is a note I sent after the event to a Club144 member:

It relates to the double top that failed (false break). On the chart yesterday's high was 1112^6 and today's high was 1113^2, the open was 1106^4.

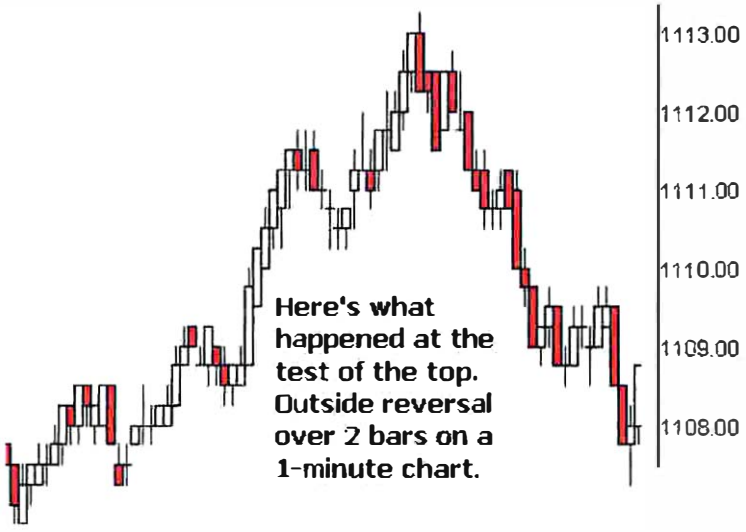
When the market is approaching another top for a double top - look at the previous range it is working against - in this case it was 7 points - so a 1-1 was 7 points up from 1106^6 so maximum target was 1113^6 - 1 point above 1112^6, if it was going higher a push higher than 7 was necessary and that would mean it was expanding and you could buy it.

Now think it out - if 1113^6 was going to be the 1-1 the possibility of a failure was on the cards also a clean break was possible if the market was strong. The move was roaring along at the time so it was a 50/50 in my opinion if it broke or failed.

If you sold at 1112^4 your stop had to be above 1113^6 - not much risk, but if you put an order to reverse long at 1114 it would have been a better strategy.

Orders would be - Sell @ 1112^4 LIMIT buy double @ 1114 STOP

Always take both sides of the possibility because you have no way of knowing what the outcome will be. The market was coming up from a 50% retracement and above the open of the days range and the average daily range was still narrow. What went before is your guide to the future. In this case the market failed and failed at a rapid rate, as soon as you saw that happen you move your stop into break even and cancel the buy stop order. Now you are in control.



SPX versus the futures:

Something that always crosses my mind when I see the futures running into a technical barrier is how will the CASH index handle the situation.

So I watch the SPX chart and see what its pattern looks like, I watch the premium or the discount factors associated with the futures price and can assume the bias on the day.

What we all forget is that there are 1000's of day traders buying and shorting stocks and their cumulative action is affecting the index price. If the guys on the physical are bullish then the futures have to follow and vice versa. This is something you should give some thought to when evaluating a trade.

I know this sounds like a lot of work but then that is why winners are griners, we have no room for shooting from the hip, that is for losers.

I am a hard task master for simple reasons, to me a loss of 3 points is unforgivable, a loss of 2 or less is acceptable if the trade had merit.

The decision point of any trade has to be well thought out, if not why place the trade?

Once you get in a trade that is working you manage it. SIMPLE!

I can't hold anyone's hand when they take a trade but I know plenty will never take the loss when they are wrong and continue to hope, most of the time when that happens the losses begin to compound until it is just a fucking shame. I don't have any compassion for incompetence, if I did then I wouldn't be in this business, I rely on incompetence to make what I make out of the markets. Since only about 200 to 300 people will read this and understand it – I can say it with no fear of controversy.

One day a small percentage of players will learn what it takes to be a trader, over 90% will fall by the wayside every 6 months or faster. Nothing will change this situation, but there is hope if you want to be in the 10%.

Trading is nothing more than a chess game, anyone can study the past and learn the moves. All you need to know is why the market did what it did at the time. Bullshit "curve fitted" systems run off of history data have no way of knowing, that is why they are useless.

A TYPICAL DAY AT THE OFFICE:

When I sit down to work I wonder what will be. Will the PIN BALL machine be good today or will it be hard work.

Everyday is a new day, I prepare but still do not know for sure, all I have is my best guess and my knowledge of what other people do under pressure is one of my best assets.

But I have the advantage I know what they should not do. I know what the professional players will try and do. It all gets down to will we have our way today.

I KNOW FOR SURE THAT I AM IN NO BETTER POSITION THAN ANY OTHER PROFESSIONAL TRADER ON THE DAY - ANYONE WHO THINKS DIFFERENT NEEDS TO BE COMMITTED BECAUSE THEY ARE OUT OF CONTROL WITH REALITY. I see this far to often with fellow traders.

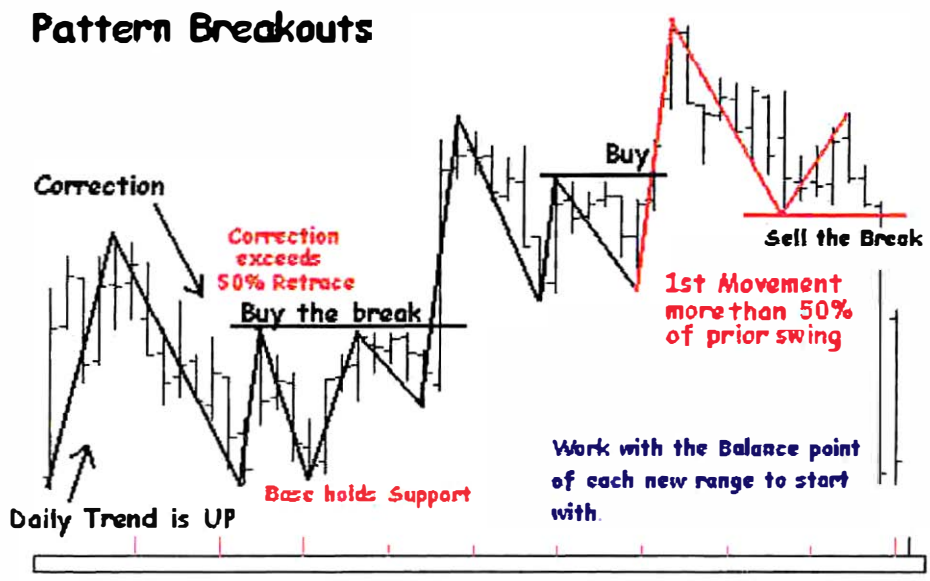
My other assets are my balance point rule, opening price action, range associations, retracement levels and pattern analysis. Volume helps and so does my perception of the news and the medium term trend.

As the day progresses I can see levels where the pro's are buying and selling and where they will short term capitulate or push harder.

When you have this knowledge you too will be a professional, this is what it takes. There is no point thinking you can sit in an armchair and come to the right conclusions outside of market hours. You might get the bigger picture right but you will have to take a lot of heat to capitalise on your view if it is right. If you are smart you will do the home work and then work the angles and scale up or down as you see where you are more correct.

Also take it from me sitting on a web site and watching other people call their trades will not help you unless you are watching first hand the information they are collating and disseminating to make their decisions.

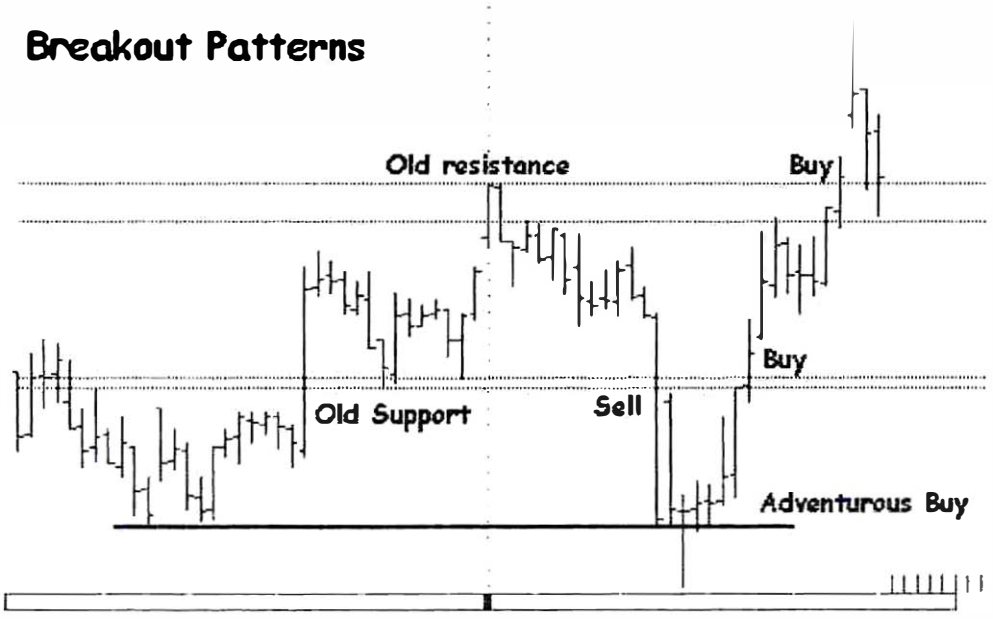
I had a mail today telling me a Club144 member had no time to follow anything because of his job commitments, he says he is saving all the posts we make in real time and is going to study them when he has the time! Where would anyone get the idea I would not call them a fool for saying something like that to me? Well he is now earmarked for exit from my room unless his game improves.


Pattern Breakouts
Correction
Correction exceeds 50% Retrace
Buy the break
Buy
Sell the Break
1st Movement more than 50% of prior swing
Work with the Balance point of each new range to start with.
Base holds Support
Daily Trend is UP

These patterns are from an Emini 60-minute chart over a couple of days and you can see how effective the method was.

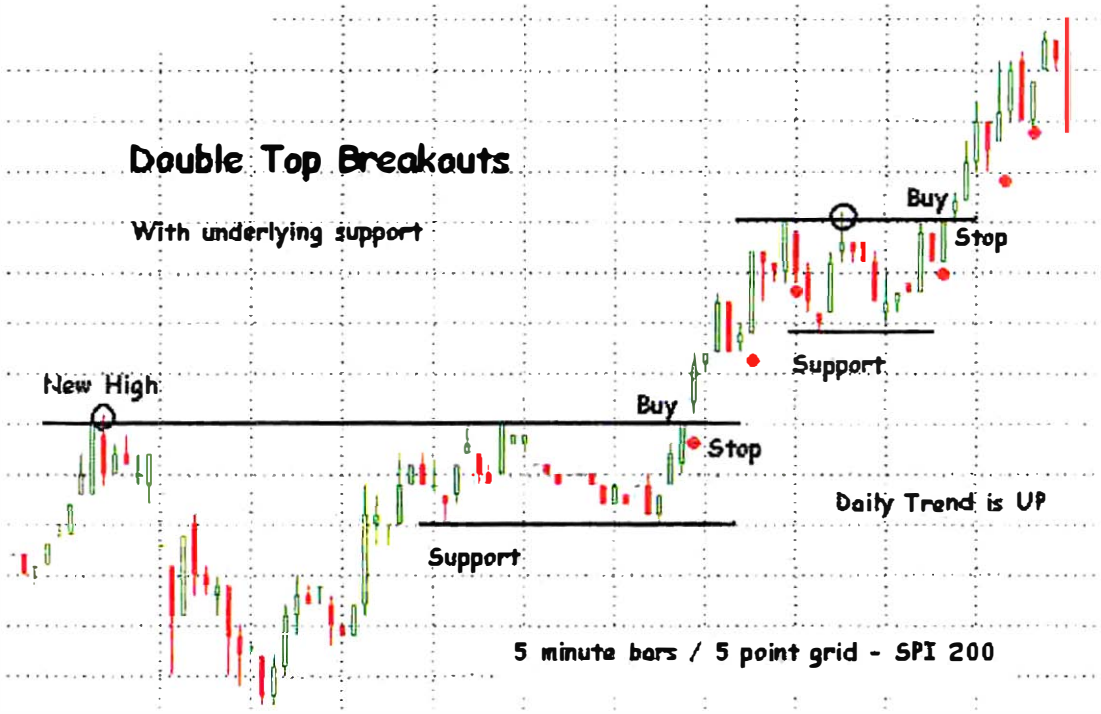
Whatever the trend when it goes into a correction and stabilises it will react back to the balance point or greater of the prior swing. Now when it corrects again and fails to take out the base it is now heading for an attempt to break out. In the example above the buys were signalled by support and the fact that the breakout occurred in territory above the balance point of the prior greater swing.

Down moves generally only correct the once and as long as the 1st movement is greater than 50% of the prior swing the breakout is most likely to succeed.



Breakouts of double tops:

These situations have a high percentage rate for success especially when the daily trend is well defined and there is a support base below the breakout. The stop at maximum should never be more than just below the bar prior to the breakout bar.



Mentally you could be "scared" to take these trades when the run is heading to new highs in the series as you might think it is going to stop dead. Well all I can say is they work more times than they fail if the trend is strong so you have to take them if you want to call yourself a trader.

There's one thing I have learnt in this business and that is if you see the set up you have to take it at the point of least risk. If you don't there is no point chasing it because when you do you have nowhere to place a limited risk stop.

I was sitting with a person one week on and off when I was visiting the USA, while he was trading the Emini. Well you have no idea the amount of trades he made that were bad trades!

I would say now this is where you get in, "Go", he would hesitate and watch what happened for a bit, if the move continued he would jump in and then sit there like a frightened rabbit to see what would happen.

Then I would say, "get out now", he would sit and hope it would turn around. Needless to say he lost money even with me sitting beside him. It's a sad indictment but the problem was, he was undercapitalised and fear was beating him mentally. I realised what was wrong and told him to stop trading till he got his mind right. He refused and continued to keep repeating the same mistakes all week. That ruined a friendship because I turned around and told him what a complete fool he was. Here he was trading a $5000 account on one Emini and hoping to scalp enough money to pay his bills. Previously he had been trading an $80,000 account before he put that money into another investment that went sour.

To be an effective trader you need to be fearless and act on signals not emotion. There's no point thinking about what you want, you can only act on what you see. It will be right or it will be wrong but if the risk reward is correct you can afford to take the trade.

One thing I have learnt also is that if the market is not doing what it should and you have a few losers in a row you are better to quit for the day. Come back tomorrow with a fresh frame of mind, don't push fate as you may have a mental problem with the market that day.

Some days I find I just can't get my mind around it so I just watch and relearn for a bit. The market is always there tomorrow.

Some days you are all over it other days it's a struggle, especially if you have interruptions but I have never seen too many days go by that if you had waited patiently you wouldn't get a set-up to trade.

This chapter alone should repay the price of this book 1000 times over if you are smart.

The point about day trading is that you really have no outside contingencies to worry about, the market flow is peculiar to that day and nothing else matters.

If you are not up to day trading then you will have to take a swing trading approach, but as long as you use the day trading patterns to enter a position and control risk you will be miles ahead of the field.

For the rest of this chapter I am going to illustrate some set-ups that you will encounter on a day to day basis in different markets. Study these patterns closely and watch the market for a while and gain some confidence in them. If you don't you will never have the ability to pull the trigger at the right time.

When you learn to pull the trigger like a MECHANIC you are there.

Overbalancing of price:

In any trend frame if the trend is intact corrections to the apparent trend should keep diminishing in size to the prior corrections until the trend is completed, if not the trend could be changing in degree or you should be alert to look for trades in the opposite direction.

On a day to day basis the market really does not go anywhere 90% of the time without corrections so corrections allow re-entries in the direction of the main trend if you stay alert to the patterns.

Retracements of ranges in 50%, 61.8%, 70.7% and double bottoms that hold and break out later are really good signals to watch for.

Traders habits are important, lunch areas are times of chop in some markets, ¾ of an hour before closing time is another area to be alert in. Morning sessions versus afternoon sessions can offer opportunity.

Most if not all of the news is in the market for the day by midday yet some markets have reports released after the day session closes. These reports might influence the last hours trading to some degree.

If you stay alert to the factors on the day and the pattern agrees you can slip the boot into the "fools" for a scalp before they realise what ever happened.

It's a poker game in lots of ways but that comes with being a trader. If you are not a trader or a strategist then you are one of the "fools" and you better change fast or you will just keep tipping money into other traders pockets.

What one must never lose sight of is that a market can change character in a flash for various different reasons. We may have hit a major geometric technical support or resistance, we may have a "renegade" attack being made by a very strong hand that has heaps of money to throw at the market. Whatever the case you need to be alert and recognise the situation has changed and the pattern will confirm it for you. When this happens go with the flow, don't fight it.

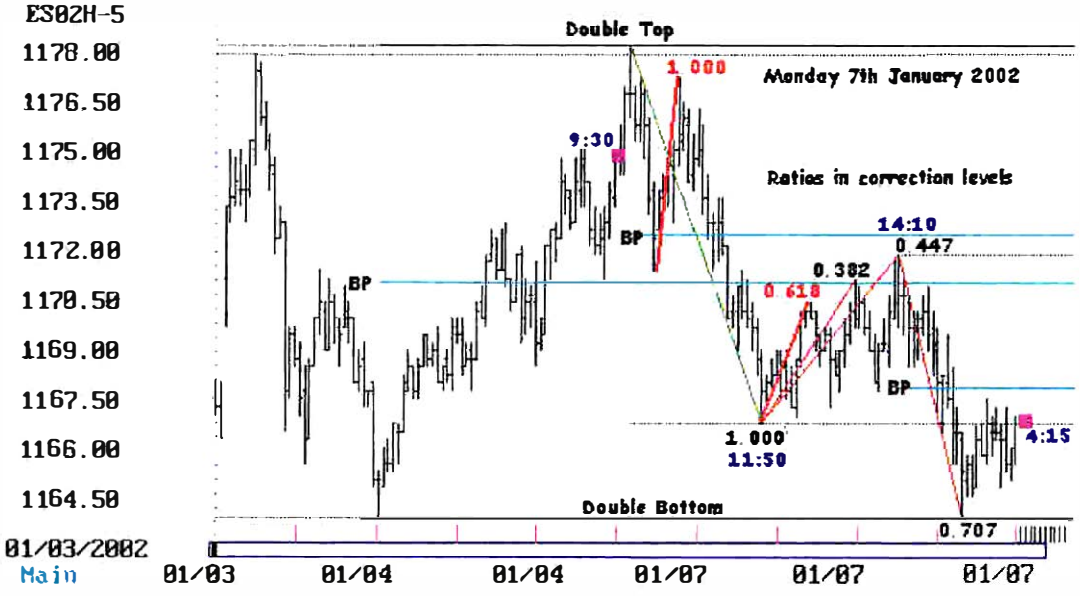
Always trade with the current market flow if you want to be around in 20 years from now. I have seen all sorts of things in the past from people who trade by opinion and not market flow. Only the ones with very deep pockets survive the encounter and live on. I remember George Sorros being under water about a half billion dollars once on a British pound trade, eventually it turned and his fund made a billion.

Another time they lost $7-8 billion and quit on tech stocks, they closed the fund down. His answer to fund investors was, the markets had changed and they were no longer as he previously imagined and would never be the same again. Well maybe the dopes out there can accept that, I can't. Sorros employed people who read the market wrong that is all that happened.

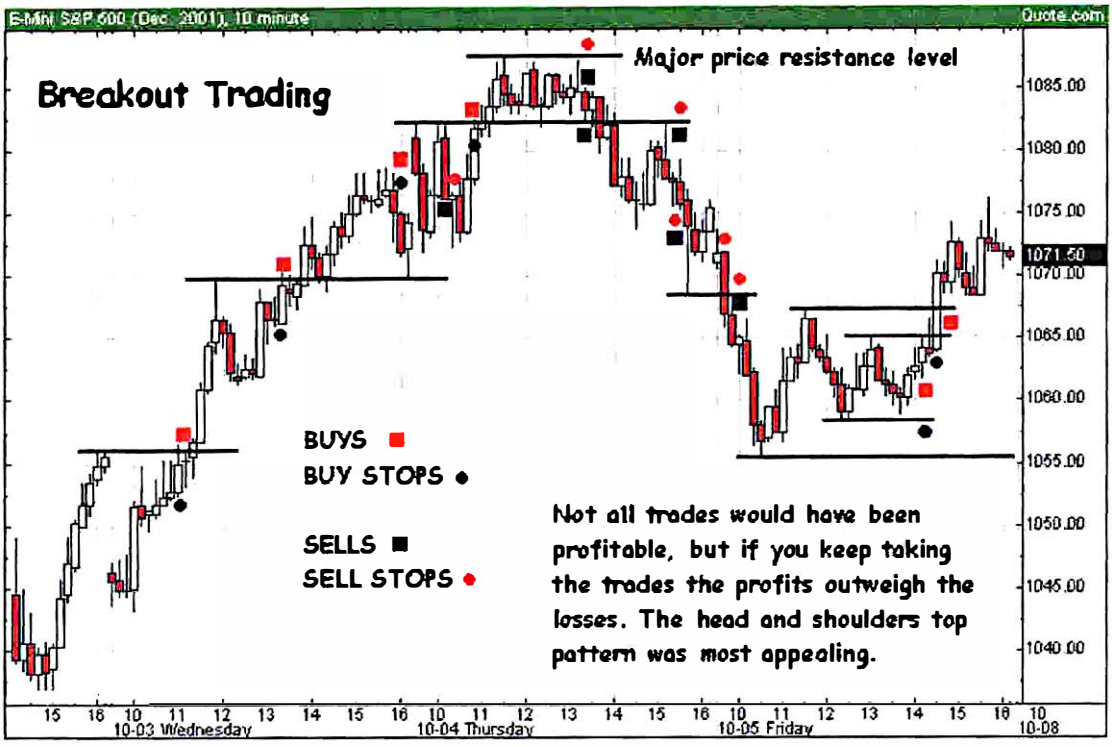
So you can see there are maniacs out there that can interfere with your plans, so be aware of it.

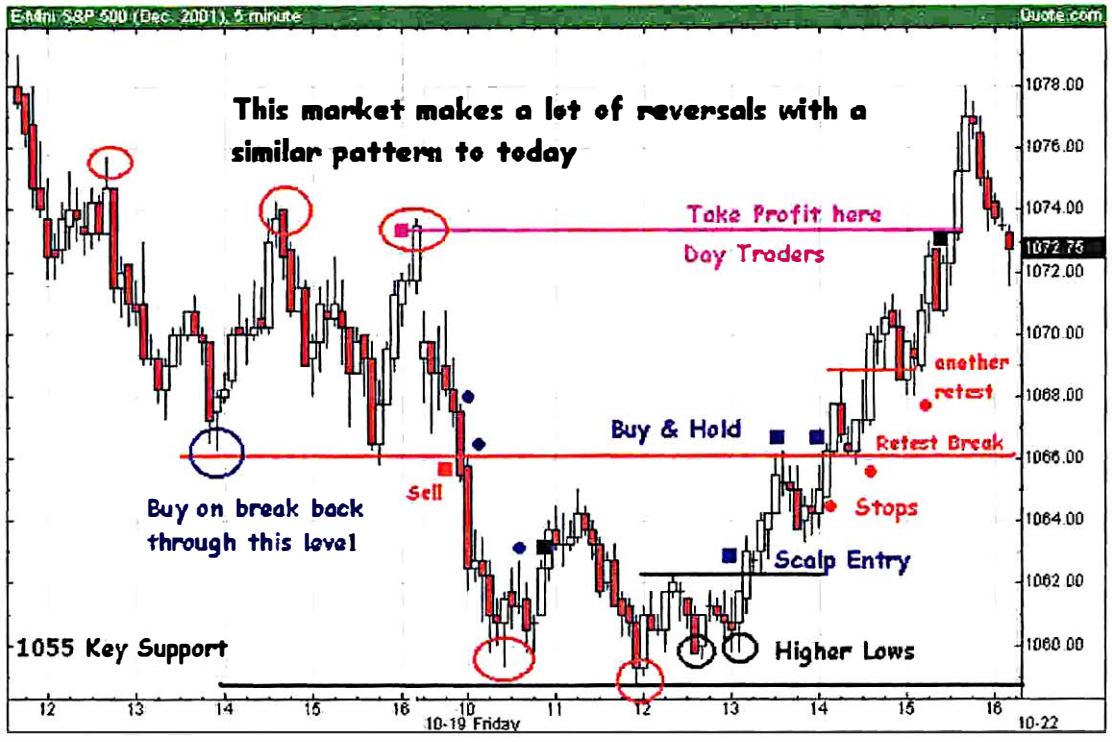
Now down to business:

Ratios form between trends of similar degree so you need to measure the waves as the market moves along. If you do you will know by the pattern where to take your trades.



Today the 1st trade was a sell from the double top, closed out when the market found support near the BP of the range. The 2nd trade was sell the break of the 1st low and the BP, this was closed out when the market stalled after 11:50am. The 3rd trade was a sell when the first correction reversed with a 0.618 ratio to the first correction – this trade was scratched, same thing with the 0.382 retracement reversal. The next sell was after the 0.447 retracement reversal and a break of the 1st movement down, the trade was closed out in close proximity to the double bottom. There was some buying on the double bottom but I didn't attempt that one.





These are some example of where I would have placed orders to buy or sell and where I would have placed my initial stoploss. The principle is the same for all markets. The more you sit down and study the market in real time the breakout points will become obvious to you if you follow the rules set out in TWAE.

Chapter 19:

Position Trading:

No book on trading would be complete without an outline on the finer points for taking position trades.

My idea of a position trade is one where you hold a position overnight or for a few days or more. You hold the position whilst it keeps making higher lows if you are long or lower highs if you are short.

The first thing to understand about position trading is that you must have an apparent trend if you want to be at least partially guaranteed you will come out ahead. There is no point taking a position trade unless you can see the potential of a trend remaining in place for some time. That means that before you camp on a position certain obvious signs must be present.

Markets go through phases, they are either in trends or in consolidations, trends probably only account for about 30% of the overall market action, the rest is trading within ranges. Trying to take a position trade off a major market low or a major market high is a blind risk occupation, most future trends require some time to establish a base or a roof from which to advance or decline. The really fast moves from highs or lows are day trading material.

BUY REQUIREMENTS:

The first requirement you need to consider for a LONG position trade is to identify several things: -

1. **The market has made a secure low and has exhibited support over at least a week or more.**
2. **The first advance has come back and tested a support zone and proven it is on a solid foundation.**
3. **You can see some positive evidence within the market banter.**
4. **Open Interest figures are agreeing with your analysis.**
5. **Trend indicators are indicating the tide is turning.**
6. **Everyone else around you is thinking the opposite way.**
7. **Probably the most important issue is that you can see short sellers stops getting hit on new advances.**

Position trades in my mind require a foundation of confirmation from LONG-TERM analysis of the market position.

The first thing I would be looking for is a market that has endured some bear market decline for several weeks to several months.

This way it has the odds of being oversold to start with. If on the face of all your fundamental evidence the market is not in some perilous position, then it has every chance of finding future favour.

Selling Requirements:

Most of the reasons to sell are opposites of the buy requirements, only difference is that sometimes markets will keep making new highs way above what anyone could consider fair value. They do this because the public do not know how to sell, they are only educated to buy and they will never give up until they are completely exhausted, it goes with the system.

The Elliot Wave system sort of explains the sell side of the market as having 2 impulse waves down whereas the buy side is not considered complete until you have 3 thrusts up.

Unless you get into a BLOW OFF TOP the sell signs are easy enough to read. You will see a drop off in volume and a progressive distribution from the early buyers taking profits.

I have never seen a progressive bear market begin without sufficient warning signs. Bull markets are a little more difficult to recognise in the early stages. So my favourite positions are in shorting the market, nevertheless you have to maintain a balance.

Pattern & Trend Indicators:

Pattern and Trend indicators are your life blood when it comes to identifying a major trend change that indicates a new campaign. It is not necessary to get on early because if you are right the trend will continue in any case. It just becomes a matter of where you can get on a new trend safely.

Once a trend is well established the pattern and the price action will keep confirming, as soon as they don't you have to get off and wait for new information. Too many systems do not allow you to do this, they hang in far to long and make to many losses from profitable positions. That is why you require understanding to trade.

There is no point being a Lemming and just blindly following a system if you want to control your own destiny. I have seen so much of it over the years it makes me sick to remember it.

Discipline:

Position trading requires a discipline far more intense than a day trader ever experiences. Markets have a way of going up and down on a daily basis and completely confusing your original analysis, then the longer you are in a position the more it begins to haunt you.

There are several easy ways to adjust your mind to the overall trend in place, you should look at the market in simple terms first before you start trying to narrow down the finer points.

50 day / bar Moving Average:

Is the market price above or below the 50 day moving average and what is the momentum rate of the average? This is a starting point.

It's pretty obvious a 50 day moving average is going to lag to far behind the market so you can fine tune the idea using an hourly chart. If you like you can use a 100 hour moving average as a filter.

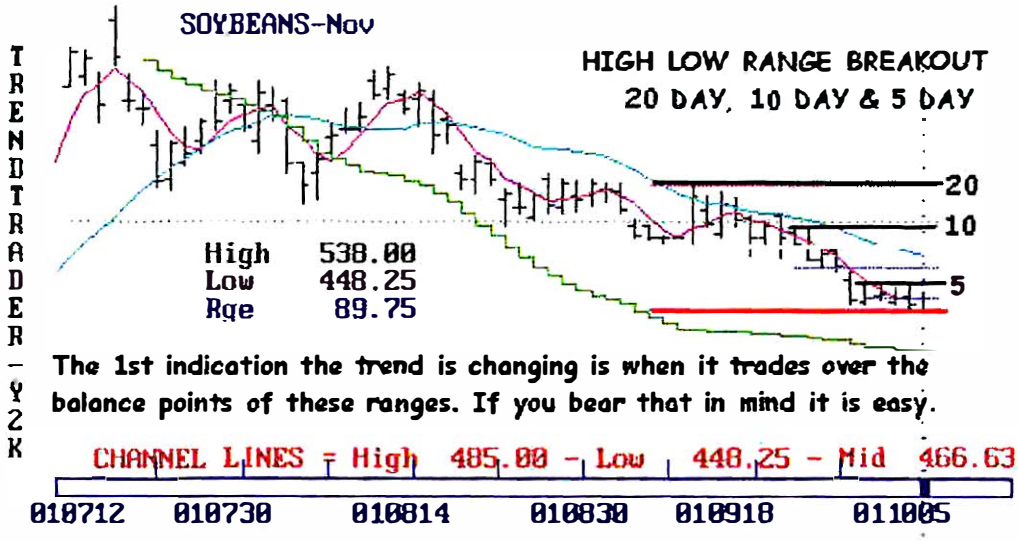
The real issue is to be aware of the averages and how they affect the mental side of the market.

This market has been in a downtrend for some time and presently it is showing no positive signs it is heading in any other direction.

Still a time will come when it reverses and the best position will be to be long. We have discussed this market in earlier chapters so it is fairly obvious even to the uninitiated.

20 Day, 10 Day, 5 Day - High / Low Range:

These are very simple to keep track of. If the market starts to make breakouts on the upside in this chart the longer-term trend could be changing, while they remain intact I wouldn't consider anything but a trading range in progress.



Years ago I did extensive research into range breakouts on a statistical basis and traded a system with permanent positions in 10 different commodity markets. Sometimes it was extremely profitable but other times it got chopped to bits. My conclusion was I needed to know when to put the trades on and when to take them off. This system certainly has you putting the trades on if you follow its lead, problem is every time you get a false breakout you could lose so much before the system reversed you in the opposite direction and then that became a problem if you got stuck in a wide range. To give you an example over 3 years our Lumber system lost $24,000 a contract on about 12 bad trades. We had others that compensated so it was only a cost to the system, yet if we hadn't been trading Lumber our results would have been substantially better. I once had a position short in Sugar for over 6 months, we kept rolling to the next contract month until the system said to go long, our broker couldn't believe it when I was still short at 3 cents a pound from an original entry of 9 cents. I was even puzzled myself why we kept putting the orders on. All I knew was the system would go long when it was ready.

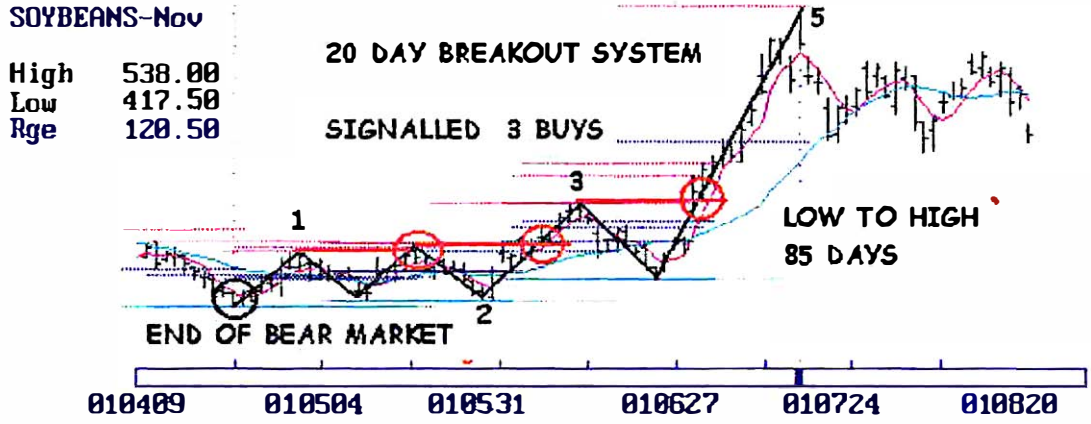
I tested just about every way of mechanically filtering the exits and couldn't really improve the results to a level I was happy with. When I created the Trend Wave it made a huge difference to my results.

WHEN NOT TO POSITION TRADE:

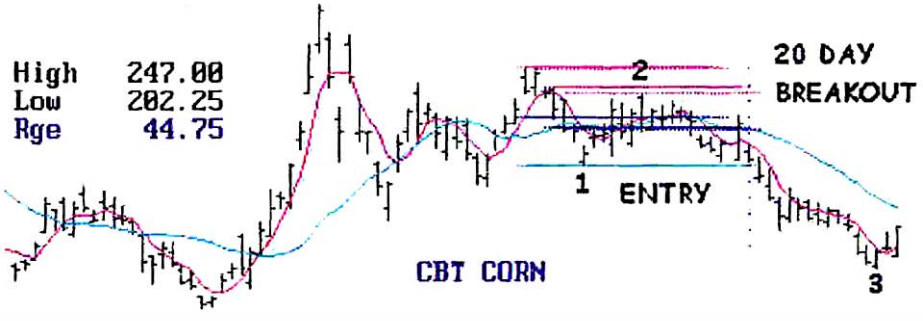
Never take a position trade in a market which is flat! Now you are going to have to work this one out for yourself. But the idea is not to get involved with sideways markets. Markets need to demonstrate some volatility before you take a position and hold it.

That's about the best advice I can give you, there are no set rules I have to predict what is going to happen in the future. But if a market shows signs of life you can have a go and use my entry techniques to get on board with limited risk.

3rd Waves and 5th Waves:



This Bull market took time to unfold but it eventually did become a paying proposition. The 20 day breakout system will always capture any major trend, it is the losses in doing it that can become restrictive.



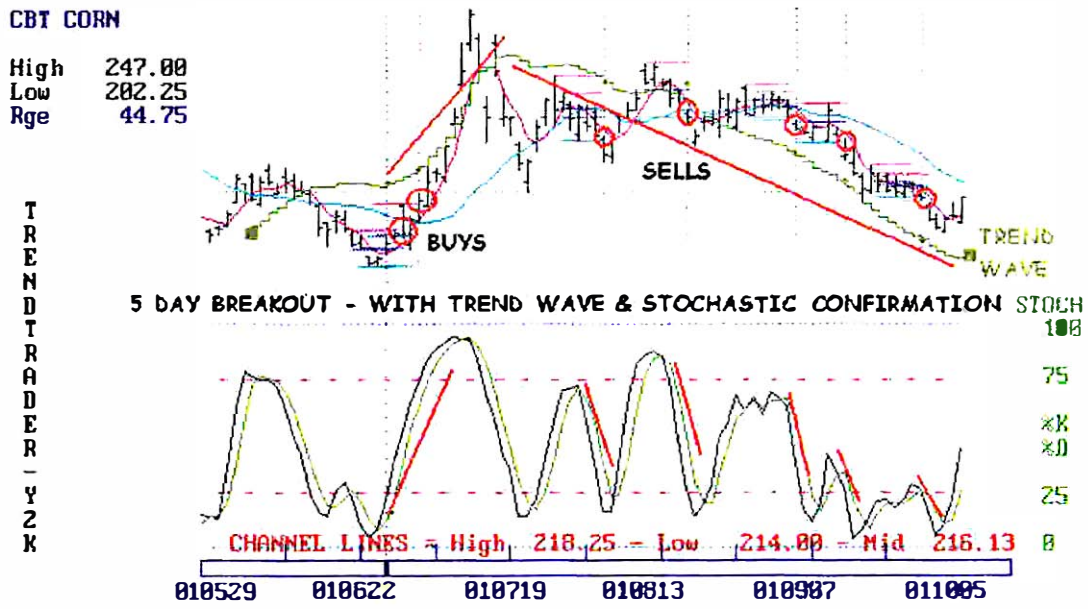
The logic behind this trading approach is you trade as many markets as will give you the opportunity as the signals are few and far between.

5 Day Breakout Method:

Using a 5 day breakout system only in the direction of the main trend is another option.

My rules for this approach are:-

1. **The Trend Wave must agree with the direction of the trade.**
2. **The Slow Stochastic %K %D must agree.**
3. **You must clearly be coming off a price retracement level.**
4. **A close stop loss must be used.**



This Corn chart should give you a clear picture of the method.

This is not a bad way for the novice to begin getting familiar with the markets as you have more opportunities to trade and all you need to do to get well ahead is catch a good run.

The reason I have used the Corn is because it is a relative inexpensive contract to trade, the low margin requirements allow you to use scale up money management rules without much investment. For instance a $10,000 account could easily use a staking system 2 – 4 – 6 – 8 based on the probability of the system.

Any system trading approach should have a staking plan based on probability. Trading only 1 or 2 contracts all the time is not what I would call trading, you must be prepared to "load the boat" on occasions to take full advantage of the patience you need to exert to be successful in this business.

DIRECTIONAL MOVEMENT INDEX:

You would be surprised to know how many systems use this indicator. But it does have some strict rules, one of these is the extreme point rule.

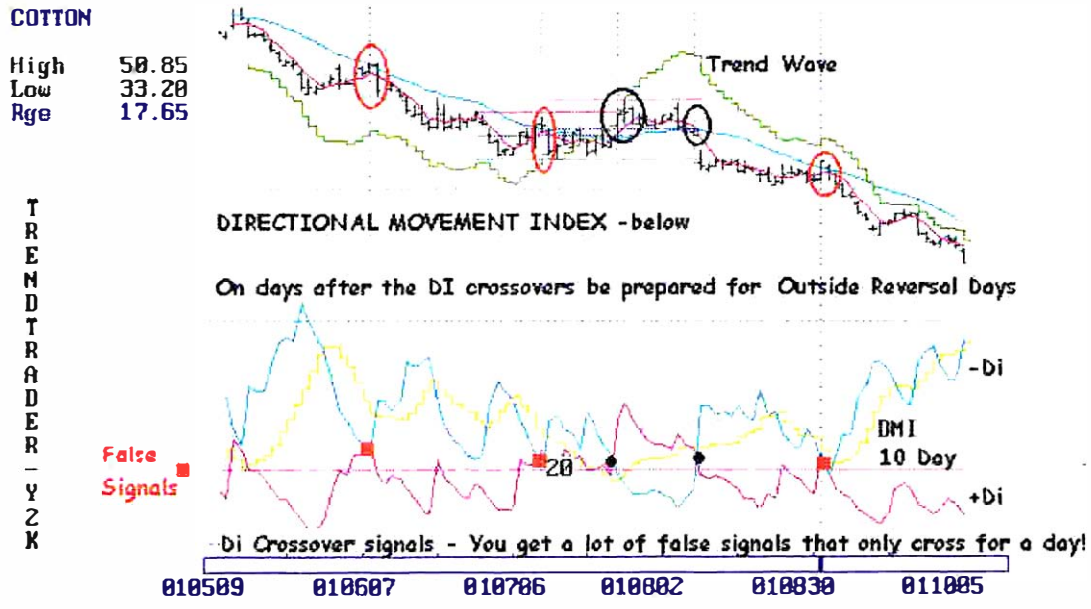
The extreme point rule:
When the Di's cross indicating a change in the medium term trend:

1. **On a buy signal you take the high of the past 3 days and place your buy order above that level.**
2. **On a sell signal you take the low of the past 3 days and place your sell order below that level.**

In a sustained trend the indicator can get into a congestion when you get a sideways market.

Watch the market closely if you are taking a position the next day because these are days where you can experience OUTSIDE REVERSAL DAYS.

It never ceases to amaze me when the TRADERS short at the exact levels where the SYSTEM people place their buy orders.



If the market is still up or down two days after the Di's cross, depending on the signal, then it is most likely valid.

Just something to watch for as this type of knowledge takes time to work out for yourself when you are new to the business, I know it took me a lot of testing time and experience to work it out myself.

The Importance of the Trend to your trading:

Trend indicators are the "traffic lights" of the market. They will either signal green, red or amber.

Markets evolve in trends, consolidations and corrections. Once a trend is in force it will most likely unfold to completion in 3 or 4 impulse legs. The impulse legs are clear cut as the market moves forward with little to no interruption.

In a strong market any break to the trend will generally only last between 1 to 3 days.

If a correction continues for more than 3 days you have to consider a larger degree correction or trend change is possible.

Depending on the power or force of a trend you have to consider that any correction following will come with the same force.

Considering the number of trading systems operating in the market, that exclusively use trend following indicators to generate orders, it pays to keep a close eye on the short, medium and long term indicators as a guide to future buying or selling pressure.

Over the years I have found that you will never be surprised by a future market move if you continue to monitor the trend indicators. Once a market has reached a geometric target in time and price and the trend indicators signal a reversal of trend you become an insider to that market.

Using simple trading tactics when you get the "green light" is the surest way to becoming a successful trader.

To reinforce your belief system it will pay you to go back over past markets and study the action of the trend indicators. This is a necessary study for any trader who wishes to make money.

Trend is so important to our trading strategy. If you don't understand, the underlying trend of the market, you cannot possibly judge the risk involved in any trade you take.

There are only 3 ways to look at TREND, these are :-
1. Medium term trend.
2. Minor term trend.
3. Very short-term trend.

Chapter 20:

Soybean - History & Seasonality:

Soybean Traders:

If you are serious about trading Soybeans you should make a study of the past for reference with the future.

Gann used continuous contract month data to analyze the grain markets, i.e., the two main contracts to monitor are the May and the November CBOT Soybean contracts. The July contract is also another heavily traded contract.

The growing season in the USA for Soybean is between May and October.

Probably the most important issue we see motivate the price to rise or fall from previous crop years is the supply and demand versus the expected crop production.

Fundamental News is released weekly during the growing season by the USDA covering :-

1. **Acreage Planted.**
2. **Condition of crops.**
3. **Estimated yield per arce by state.**
4. **Estimated total production.**
5. **Estimated carry over stocks.**

It is very important that the crops receive rain during the early growing period and then in August as the pods are filling.

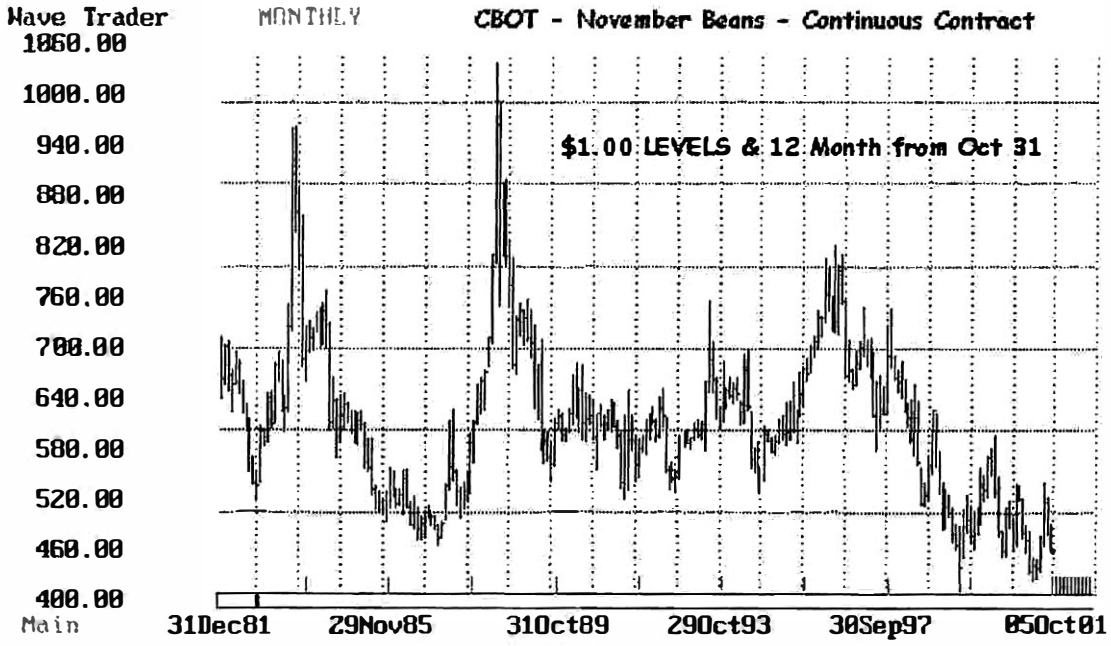
You can get weather related market rallies and declines during the growing season.

The carry over stocks contracts May & July will rise or decline on the expectations of the crop conditions and production in the South American countries.

There is also a USDA farm assistance program for farmers with a guaranteed floor price for their production. Conditions vary so it is important to monitor changes as the commercial farmers will try and trade the free market around their minimums.

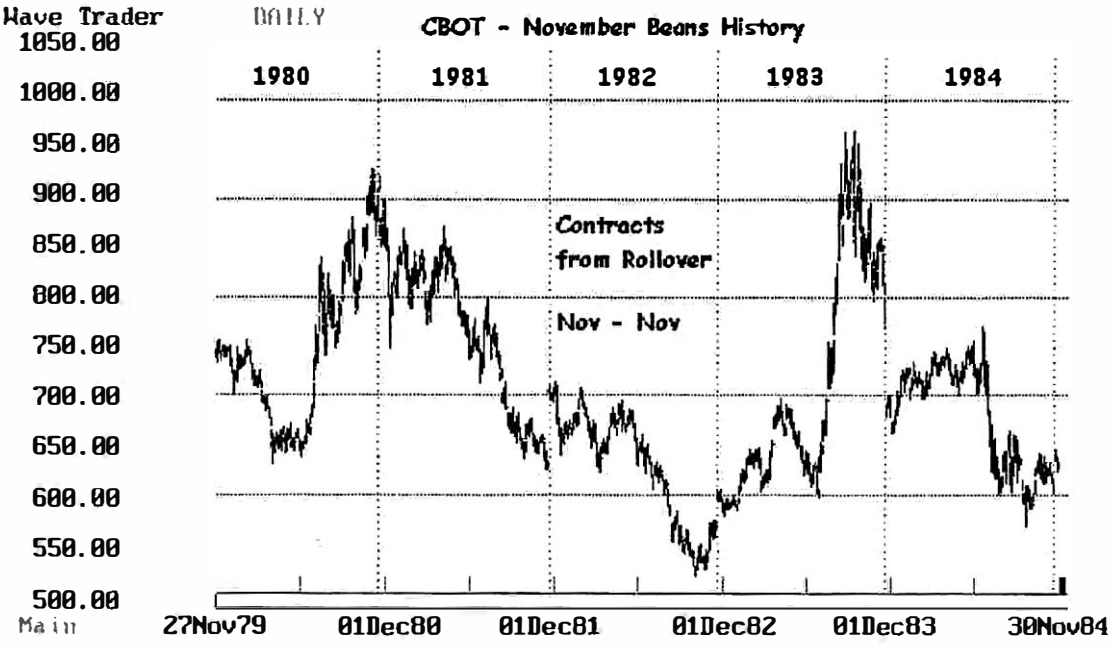
November Soybeans CBOT:

You can start by becoming familiar with the price ranges the complex traded in during the past 20 years.



I have marked the $1.00 levels and the 12 month time intervals starting from Oct 1982 for easy reference.

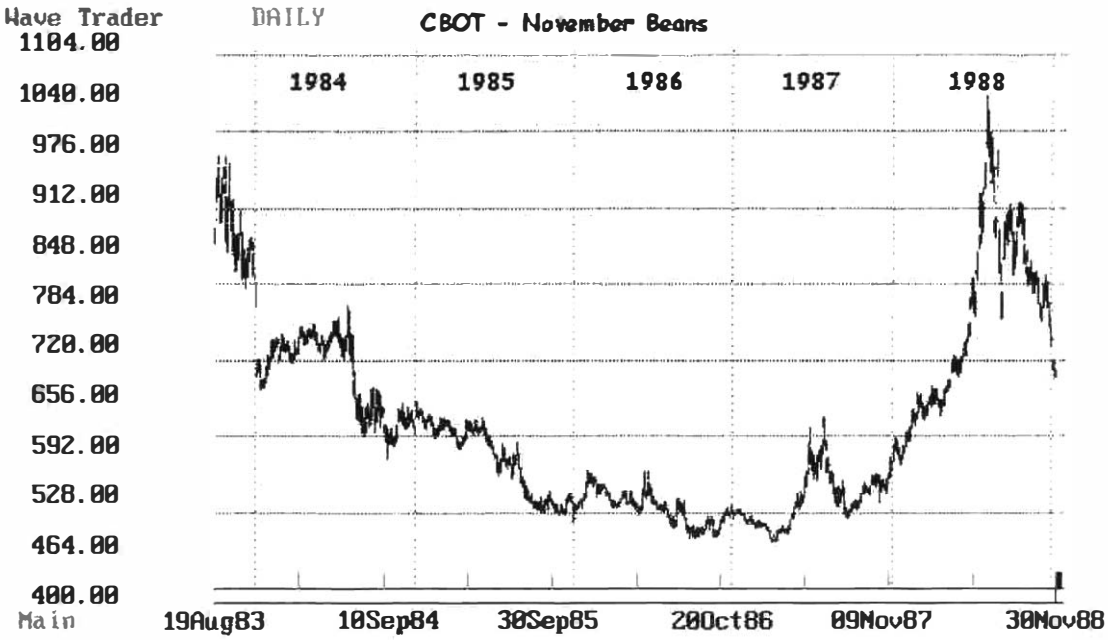
1980-1984



Having a long-term chart available lets you see immediately that prices can do anything when the circumstances permit.

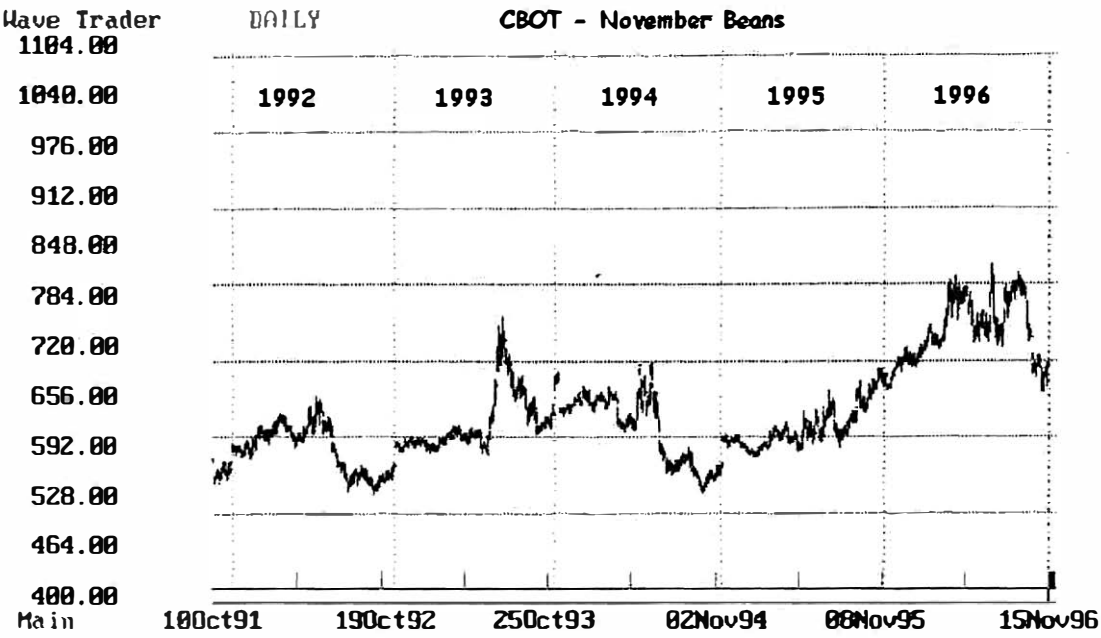
Next, you need to have a record of every past contract from rollover up until expiry, when we strike a similar year in the future you can refer to it.

1984-1988

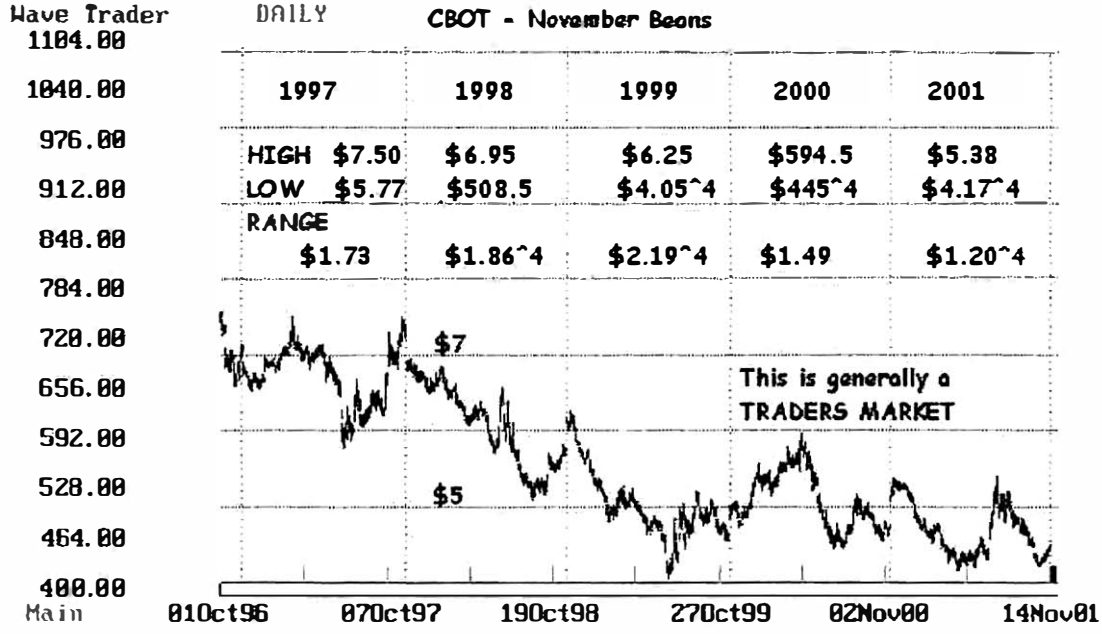


1988-1992

1992-1996



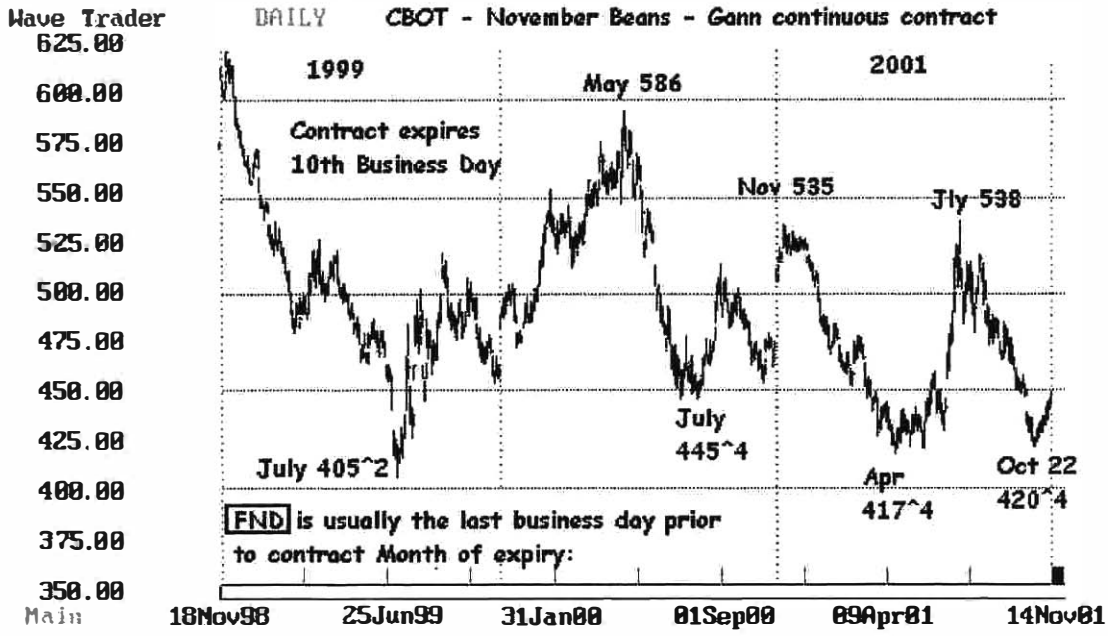
1997-2001



You can see from the past that bull markets are possible from time to time that can take the market from it's lows to highs by a margin of $5.00 a bushel. Just the same there are years where the ranges are never more than $2.00 a bushel and sometimes less.

It is a fabulous market when it is on a bull run I personally had 4 contracts on in the 1983 bull market from $6.40 to the high of $9.68 and closed out after the first decline from the top at $ 8.90, I would have been out better but got caught in a limit down move and jumped out on the bounce. I took that trade on using my break out system.

Contract lows in Beans in recent years been in July due to the South American production being so good.



The interesting thing about trading Soybeans is the future months do not always trade at a premium to the front months like other commodities.

Soybean future contracts if they are not in the crop year can trade at a discount to the crop months. Not always but when they do it shows that something unusual is going on.

The volume trading months are JAN, MAY, JULY and NOVEMBER there's not much point trading any of the other months. The technicals will work better in these contract months.

One thing I have been hearing for many years is that, "Beans will trade in the teens". There are so many people out there waiting for it, every year you hear the same forecast from the newsletter writers, it is unbelievable.

They have Elliott Wave counts and Planetary predictions you could not jump over. Don't take any notice of them just follow the market and it will tell you where it is going. I have seen that much money lost by people following forecasts on Soybeans it is amazing.

One day it may happen but the circumstances will tell us in any case. It is going to have to be a severe drought to start with.

SPREADS:

The Grain markets have a large market in spreading future months against the crop months or other commodities such as Wheat or Corn.

This is something the speculators have worked out has a reliable potential so there is a lot of trading volume in the grain markets directly attributed to spread trading.

Interesting the high this year on the November contract was made on a GAP REVERSAL the day after the July 2001 contract expired.

The July contract had the most active volume up until Notice day and then the spread began to decline as speculators exited the July contract and got into November.

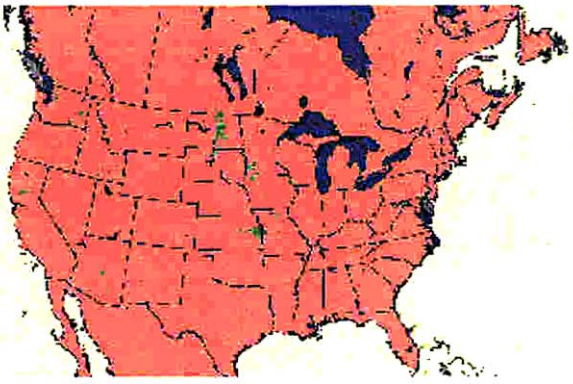
There are seasonal spread trades that have an 80% success rate.

Knowledge is everything:

The number of people who would possibly donate their money to the traders in the Soybean pit because they lack knowledge of the market is immense.

Most of the losers wouldn't even know what a Soybean looked like let alone have seen a Soybean crop.

Soybean growth depends on the weather - don't forget it.



Some people call soybeans a miracle crop because soybeans are used for food for people, as animal feed, and in over 140 non-food products like fuel, ink, glue and makeup!

Genetically modified soybeans were planted on 68 percent of the country's soybean fields this year, according to the U.S. Department of Agriculture.

Growing Phases:

1. **Planting**
2. **Emerging phase**
3. **Growth phase**
4. **Pods forming**
5. **Pods filling**
6. **Leaves falling**
7. **Harvest**

The planting season in the USA begins in April through to early May, the average yield per acre varies from 36 to 44 bushels per acre.

Cost to grow soybeans is approximately $225.00 an acre.

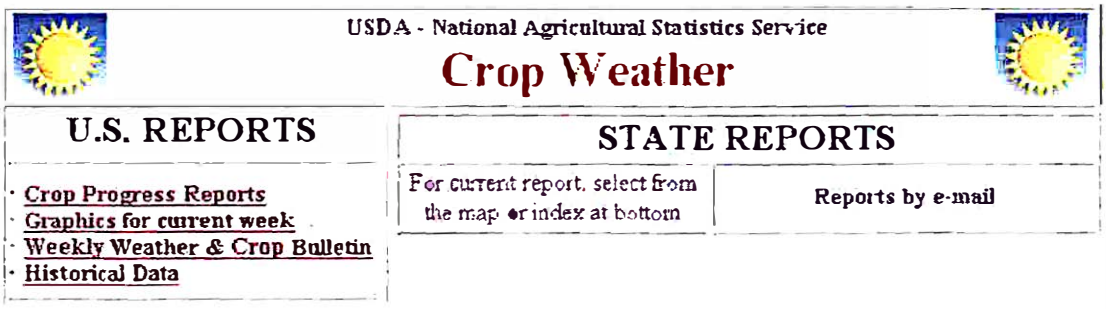
Stay informed:

Stay informed if you want to trade commodities, too many things can happen to upset your apple cart.

USDA REPORTS:

All the information you need is available on the USDA web site.

http://www.usda.gov/nass/pubs/staterpt.htm


USDA - National Agricultural Statistics Service
Crop Weather
U.S. REPORTS
Crop Progress Reports
Graphics for current week
Weekly Weather & Crop Bulletin
Historical Data
STATE REPORTS
For current report, select from the map or index at bottom
Reports by e-mail

CROP PROGRESS REPORTS:

Soybeans: Percent Dropping Leaves, Selected States [1]

State	Week Ending			1996-2000 Avg
	Sep 30, 2001	Sep 23, 2001	Sep 30, 2000	
	Percent	Percent	Percent	Percent
AR	72	58	60	48
IL	87	71	91	77
IN	91	80	94	87
IA	59	32	98	87
KS	91	76	100	84
KY	75	55	66	58
LA	86	76	90	82
MI	64	52	57	70
MN	92	71	98	95
MS	86	81	91	81
MO	86	72	80	65
NE	89	56	99	88
NC	30	22	29	28
ND	98	72	98	93
OH	91	79	85	80
SD	94	77	98	93
TN	59	45	58	56
WI	55	31	82	78
18 Sts	79	60	88	80

[1] These 18 States planted 95% of last year's soybean acreage

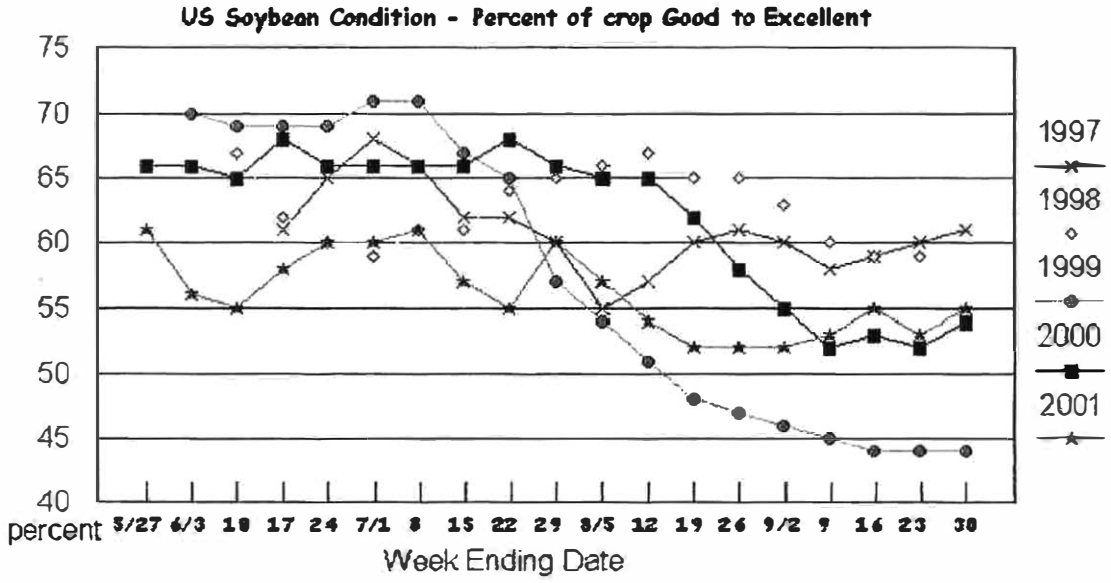
Soybeans: Percent Harvested, Selected States [1]

State	Week Ending			1996-2000 Avg
	Sep 30, 2001	Sep 23, 2001	Sep 30, 2000	
	Percent	Percent	Percent	Percent
AR	24	16	18	14
IL	28	11	28	21
IN	18	7	20	22
IA	6	1	25	26
KS	23	10	63	21
KY	16	8	14	15
LA	57	40	65	51
MI	6	2	4	10
MN	11	1	55	35
MS	53	43	60	48
MO	8	2	28	14
NE	14	4	37	19
NC	2	0	0	2
ND	37	4	45	41
OH	12	7	10	20
SD	15	2	40	21
TN	9	3	16	10
WI	4	0	14	12
18 Sts	16	6	35	25

[1] These 18 States harvested 95% of last year's soybean acreage.

CROP CONDITION REPORTS:

If you want a graphic of the crop condition report it is available from the USDA.gov web site.



COMMITMENT OF TRADERS REPORT:

These are available from the CFTC.gov web site.

SOYBEANS - CHICAGO BOARD OF TRADE — REPORTABLE POSITIONS AS OF 10/02/01

NON-COMMERCIAL			COMMERCIAL		TOTAL		NONREPORTABLE POSITIONS	
LONG	SHORT	SPREADING	LONG	SHORT	LONG	SHORT	LONG	SHORT
(CONTRACTS OF 5,000 BUSHELS)					OPEN INTEREST:		184,975	
COMMITMENTS								
25,927	24,433	28,446	86,600	107,386	140,973	160,265	44,002	24,710
CHANGES FROM 09/25/01 (CHANGE IN OPEN INTEREST: 10,952)								
1,622	2,131	-88	10,923	8,737	12,457	10,780	-1,505	172
PERCENT OF OPEN INTEREST FOR EACH CATEGORY OF TRADERS								
14.0	13.2	15.4	46.8	58.1	76.2	86.6	23.8	13.4
NUMBER OF TRADERS IN EACH CATEGORY (TOTAL TRADERS: 325)								
103	81	89	99	83	256	225		

LIVE QUOTES from CBOT:

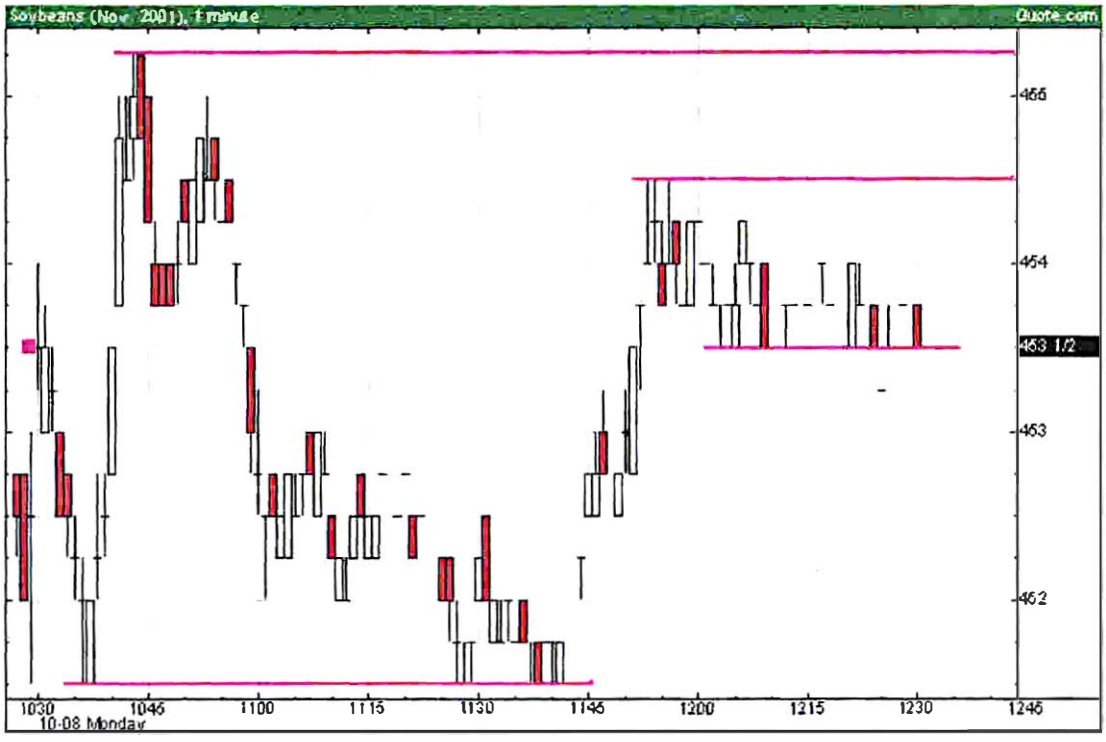
The Chicago Board of Trade
The World's Leading Futures Exchange
Powered By Jones Financial Network

Grains & Oil Seeds | Corn | Stock Index | Composites | Metals | Financial

Soybeans	Time	Change	Last	Last2	Last3	Bid	Ask	High	Low
S1X	11:32:43	1 4	463 6	463.4	463.2			465.2	461.4
S2F	11:32:34	1 4	460.6	460.4	461.0			462.2	458.4
S2H	11:32:30	2 0	466.4	466.2	466.4			467.4	463.4
S2K	10:54:08	2 4	470.0	469.4	469.0			470.4	467.0
S2N	11:32:28	2 6	474.0	474.2	474.4			474.6	470.4
S2Q	00:00:00								
S2U	00:00:00								
ZS1X	06:00:42	3 2	464.2	464.2	464.2	464.2	464.4	464.4	460.0
ZS2F	06:00:42	2.4	461.2	461.2	461.2	460.0	462.4	461.4	457.4
ZS2H	06:00:42	2 6	467.0	467.0	467.0	464.4	467.4	467.0	465.2
ZS2K	00:00:00		467.4s			465.0	550.0		
ZS2N	00:00:00		471 2s			469.4	473 2		

This is the cheapest quote service at $9.95 per month.

QUOTE.COM CHARTS:



Quote.Com also has a cheap charting service you can use to keep right up to the minute.

FUTURES SOURCE - CBOT:

Watch the news:

Aug 16, 2001
CHICAGO -- Soybean prices at the Chicago Board of Trade got hammered Thursday as a news article reignited fears about the safety of genetically modified soybeans.

Reports stating that a Belgian scientist discovered an unknown DNA sequence in Monsanto Co.'s Roundup Ready soybeans sent the market into a tailspin.

"Soybeans got clobbered, which took many of us by surprise," said one floor soybean broker. "We were looking for a continuation of the previous session's up tick in prices."

SOYBEANS (DAY)

Link	Symbol	Month	Date	Time*	Open	High	Low	Last	Chg	Volume	OpenInt	DTE
	SX01	Nov '01	10/08/01	13:40:44	453'4	458'0	451'4	454'0s	1'6	28524	91352	37

Fields with no current data due to trading being closed may not be displayed in the above table.
*Exchange time

Headlines for Soybeans (Day)

Mon, 10/08/01	[FVWN] CBT Corn Review: Higher on soybeans, rain ideas	08:01 PM
Mon, 10/08/01	[FVWN] CBT Corn Review: Higher on soybeans, rain ideas	06:40 PM
Mon, 10/08/01	[FVWN] US, China officials to meet this week on soybeans	04:23 PM
Mon, 10/08/01	[FVWN] * CBT soybeans seen up 1-2; corn, wheat up 1/2-1	02:10 PM
Mon, 10/08/01	[FVWN] * Early call: Soybeans up 1-2, corn, wheat up 1/2-1	01:12 PM

FUTURES SOURCE - DELAYED DATA HAS NEWS AVAILABLE WHEN YOU DISPLAY A CHART - at the bottom of the page click on get news headlines for the day.....

If something important comes along at least you will be aware of it.

A lot of it is a waste of time but then you never know, better to be safe than sorry. Between Bloomberg and Futures Source I seem to hear most of what I need to know.

A good idea is to inspect these pages prior to the market opening when you have time to read them.

Follow a set routine each day, prepare and execute from a position of knowledge.

OTHER COMMODITIES AT THE CBOT:

The CBOT has agricultural pits that are worth considering trading using similar methods as I use for Soybeans these are: -

1. **Soybeans**
2. **Corn**
3. **Wheat**
4. **Soybean Oil**
5. **Soybean Meal**

Later this year CBOT is going to introduce Mini contracts for electronic execution with reduced exchange fees.

If you are just learning to trade, trade the lesser volatile contracts and the electronic system could be a good start. Once you have traded them for 6 months you will learn where you have been making all your mistakes.

Fix the mistakes and away you go.

There should be no reason why anyone with any street sense, who has read this text, shouldn't be able to make money trading.

The only reason for losing money in the markets is lack of discipline and lack of knowledge, 90% start and end that way. The whole thing is a mind game where you have the edge.

I've just about exhausted everything I can tell you that will save you grief in the future, so now it is up to you.

I'm going to finish this book off with a few things for reference and a final summary.

Best of luck, do the work and the rest comes naturally.

Note:
An interesting web site with information on primary industries:

Wheat URL:
http://www.rochedaless.qld.edu.au/wheat.htm

Chapter 21:

Contingency Plans:

MURPHY'S LAW:
If anything can go wrong it will!

One of my biggest fears in this business is losing communication with the market action, i.e., when I have a position.

Doesn't seem to matter what is going on the best laid plans of mice and men can be sabotaged by the communication systems we rely on.

Today I was reminded for another time; just as well I didn't have a position.

My live feed went out; just as well the power is on as I have other options.

I have Bloomberg steaming prices and I have the Internet to draw on for delayed charts.

POWER FAILURES:
My normal reaction if I have a position going and the POWER GOES OFF is to ring the broker and close any positions I have going. Doesn't matter if I have a stop loss order going I just do that anyway. Who knows how the power failure will affect the market, who trusts their broker that he has the order in the market, he might be in the same situation you are. Just get the hell out when everything is not normal.

LIGHTENING STRIKES:
If you don't trade with a stop order you are at risk.

COMPUTER FAILURE:
Well this is going to be your worst nightmare if you have a position.

ON LINE ELECTRONIC EXECUTION SYSTEMS:
Make sure you have a mobile phone to call the broker and cancel all orders and quit all positions.

Create a Contingency Plan:

You must be Resourceful in this business if you want to survive.

Before you begin to trade any market give some thought to the eventual problems and hurdles you will encounter along the way.

Years ago I was overseas and holding a large option position (100 put contracts) in BHP.

As it happened I was right about the market as it was in October 1989 when the Dow had what was referred to as a MINI CRASH at the time. It was a Friday in New York and I was in Chicago. I was joyous at the time because I knew that when Australia's share market opened on the Monday (it was already Saturday there) it would bucket.

I was right of course but, I had driven down to Orlando on the Sunday afternoon and the Australian market did not open till around midnight Orlando time.

I tried for over two hours or more to place an International call to my broker in Melbourne just after the Melbourne stock exchange was opening for the start of the week, I was going to give him some instructions.

As it turned out all the brokers' phones were engaged and I couldn't get through.

I was so tired I fell asleep, every time I tried to get through I couldn't. I knew I wasn't going to lose money but I was thinking the US market may bounce and I should take profits.

I never got through and it wasn't for two days that I finally got hold of the broker and closed the position.

A potential $25,000 profit had disintegrated to a $7000 profit in two days.

LIVE & LEARN – I never got caught again; I always make sure now that I have my brokers home number.

I could tell you other stories but that was the worst one. Just make sure you have a contingency plan for unusual situations.

THIS HAPPENED TO SOMEONE ELSE:

In 1982 I was trading with a firm Darlington Commodities in Melbourne.

In September one day I had a position long in Comex Gold when the Hong Kong market went about $20 up above the close on Comex, Gold had been rising rapidly and was around $495 in New York from a low of $295 three months earlier.

I went into the managers office to talk to him and he had a friend of ours on the phone. The friend was visiting New York and Max had shorted 20 Comex Gold two days before and was getting a margin call based on the Hong Kong price. Max had no way of delivering the money that day and was begging Steve Knapp the manager to hold off till he could do it the next day. Steve said no and he had to close the position out. Max was underwater $60,000.

The positions were closed:

Murphy's Law, the gold market collapsed about $100 an ounce over the next two weeks, without going any higher. Problem for Max was he was not on it.

Brokers are not your friend, they have company rules and if you can't comply with them they will do whatever the company rules say.

It was probably this instance that first made me aware of the function of brokers. I knew Max had the money to cover the margin call, so did the broker, he just wasn't in a position to do it from where he was.

From that day on I vowed never to hold a position when I wasn't at my office or in my own home town.

Never go on holidays and hold an open position.

You will live and learn as life goes on. It is always the unexpected that gets you.

Chapter 22:

Trading With an Edge:

Risk Management and Trading Philosophy:

If you want to make a profit the rule to secure risk management is simple :-

When you are wrong don't lose much.

I consider I am wrong if the market moves against my entry point by more than 5 tics. So when I place an order I immediately place a stoploss order with it. Anyone who trades without a stoploss in the market, is a definite fool.

Why wait and find out you are wrong in taking the position and lose more. If you enter a position following my entry techniques it will work in your favour immediately if it is going to work at all.

Once a trade moves into a profit zone you move your stoploss to break even.

If you want to trade with the trend and let it ride you should evaluate the strength of the trend. Generally when a market is breaking out of a range it will hit a lot of stops and move substantially in your favour. The best guide to the length it will run can be gauged by the duration of previous ranges.

As long as the market moves in your favour you must continue to move your exit stop in to preserve profits. A good rule of thumb is to never give back more than 25% of gained equity. If the market hits a support or resistance level and won't budge - take your profit and insert a new order in the market above the resistance or below the support in case it breaks out again. Place a tight stoploss on the new position and start again.

The big failure with novice traders is their belief that they won't find another trade too soon, so they just hang on and give back equity and then some.

You must never let a profit turn to a loss, opportunity presents itself just about every second day in some shape or form.

Trading is a business, it must be treated as a business, i.e., if you want to make a living out of it.
Bad things can happen to a trader when he/she starts breaking their own rules.
If you ever start doing this you are out of control and should stop trading an regroup, otherwise bad things will happen.

Anatomy of a Trade

Opportunity
Agreement - Pattern
Confirmation - Trend Indicators
Execution - Entry Technique with stop
Management - Movement of Stops with rules
Conclusion – Exit on rules

These are the stages of a trade one must manage to be successful. Every trader must formulate their trading plan and execute that plan flawlessly.

To execute any trading plan flawlessly you must have rules to follow and you must never break any of your rules.

My first rule is :-
When in doubt, stay out.

My second rule is :-
Never trade on rumour or other peoples advice.

My third rule is :-
There is no price too high to buy and no price too low to sell.

My fourth rule is :-
Be guided by your indicators at all times, that is why you have them.

My fifth and most important rule is:-
KISS - Keep it Simple Simon.

To make money you must know how to trade.

A good trader does not need to be a good forecaster, but a good forecaster needs to be a good trader to make money.

The important issue in trading is in knowing how to take best advantage of the prospective opportunities one encounters. Opportunities are now, not sometime in the future, so if you want to be a good trader update your analysis daily. You will be amazed how the market continues to provide the necessary information as it moves along. Always be prepared for the "unexpected".

I try to make myself aware of possible technical contingencies that could signal a change in trend, but these are not my prime concern until they prove themselves. My goal is to go with the flow until the market tells me to change step.

Keep emotion out of your trading decisions, act like a surgeon and execute without feeling. Don't get greedy, take what the market gives you and move on. The market will always be there.

Sometimes no position is the best position. Learn to stay out when times appear dangerous.

Successful speculation requires patience, a systematic approach and a plan of action.

Your success in the real world will only be determined by your ability to adapt to similar but changing situations.

Control your ego - trading is not about being right - only about making money.

Act with confidence - or don't act at all.

Never trade with money you cannot afford to lose.

Never add to a losing position.

Never leave on a losing position at the end of the session.

Develop yourself as a Trader:

Good trading practices can only be based on a SOLID FOUNDATION.

To start off with you need to develop a BELIEF SYSTEM.

This can only be accomplished by hard work and a study of past markets, to create a belief system in the analysis tools you are using, to find new trading opportunities. You need to know what works and what does not work, there are so many ideas being sold to the public that have no chance of success and you need to be aware of them.

It is a must that you understand the tools of the trade, without understanding you had better forget the whole idea of trading for a living.

Thirty years ago when I began working in the wholesale car business, my boss taught me to follow rules - the first rule, was to take a quick look at the car I was going to make an offer on and decide, on the spot, if I would buy it for myself. If the answer was yes, his reasoning was that we could always find another buyer to sell it to! Next thing was to inspect the vehicle by test driving it and having a closer look. If all was in order then you made an offer. These principles made me a lot of money. The real addition to these rules was knowing where I could sell the vehicle at a profit, this knowledge only came with experience. Within a couple of years I gained a reputation for dealing in quality cars - I could pick up the phone, call a dealer and sell them just by giving a description. If my description was incorrect they could back out, if not they owned the car - they were the rules. If anyone broke the rules we refused to do business with them.

Every week we reviewed the stock on hand, if a car had been in stock for more than 2 weeks it had to be sold the next week, at a profit or at a loss, either way it had to go. This led to a saying in the trade, "Your first profit is your best profit". We worked on turnover and left the retail to the dealers with the big overheads.

When I began trading commodity futures I applied the same principles, learn as much as you can about the business, study the past, study the individuals operating in the business, find an edge no one else has, only trade when I was confident I could win and take my profits when they were there.

In other words - Use all the tools all of the time.

Setting Goals

Some competent technical analysts I have met and taught in the past do not make money trading for one simple reason, they have no goals.

I find this a strange but true situation, as my motivation for trading was to make money from the start. The learning process came second and I have found that most successful traders share that same philosophy.

If you are only interested in learning technical analysis in the educational sense and your only motivation is to learn, rather than make money you had better go and do a motivational course and reset your goals.

Trading is about making money - it is not a matter of being right or wrong in your analysis. There are times when your analysis will be wrong, but you can still make money because you follow the market. Let the market do the talking first, then you can apply technical analysis methods to enhance your understanding of the market behaviour.

Your first priority as a trader is to make money, everything else comes a close second.

Fundamental News

I have read and heard so many times technical educators saying, "You don't need to know anything about fundamentals, everything you need to know is in the price".

The people who believe this are generally "boffins", system traders or Elliotticians.

Well this statement is a half-truth and, if you really want to be successful I suggest you follow the news.

With today's news coverage on cable and the Internet and the exchange reporting requirements your analysis can become a lot more credible to you by knowing the fundamentals.

Leave no stone unturned in your quest for perfection.

Pattern will tell you where the STOPS are.

You have to ask yourself questions about the direction of the market all the time. 5 minute to 5 minute, hour to hour, day to day and week to week.

Where do I buy, where do I sell, where is my profit objective?

The only real indicator of market trend is price movement itself, everything else is a technical tool that helps guide your decision making process. It is of no value to try and guess where the market will go, TA is a method for determining probabilities, if you are guessing that the market will reverse against its current trend you maybe right but it will take the price action to confirm you are right.

You must be an expert in pattern to be a trader, even if the pattern misleads you from time to time, good signals will continue to come more often than not. But remember not every signal will be right! That's why we use close stops.

At the end of the day, PATTERN RECOGNITION is an art you can learn, you need to study different TIME FRAMES for best benefit and then learn how to integrate that knowledge into a trading plan.

PATTERN trading alone can be very successful, but you need to be a Surgeon, i.e., cut the knife cleanly on the signals and stay out when you don't.

I think I have provided more than enough information for those that are willing to do a little work for themselves. If you don't do any work then you shouldn't be in this business anyway.

To learn what I am trying to teach requires your own input and concentration to understand when to act. I can't describe that feeling when it happens - you have to get that feeling for yourselves by watching the market unfold in real time. If you sat down in front of a live screen for a couple of months and just paper traded your feelings of what the pattern was telling you, you could become a successful trader.

COMPUTER TRADING SYSTEMS the world over buy and sell off market levels that exist for any set length of time, to beat the market you have to learn how to adapt when the opportunities exist.

Some trading rules to follow:

THE NEVERS

1. **Never place an order without an accompanying stop loss order, GTC (good till cancelled).**
2. **Never let a profit turn into a loss.**
3. **Never add to a losing position or hold a loser overnight.**
4. **Never trade against the trend unless you have an opportunity to stop out and reverse for a very small loss.**
5. **Never take a trade unless you have calculated the current support and resistance levels.**
6. **Never hold a scalp position over night.**
7. **Never take a position on hearsay.**
8. **Never trade without proper preparation.**

Some other considerations:

Always have sufficient funds in your account so that you can scale your trades up if special situations arise. It may well happen that something comes along out of the "blue" and you are not in a position to take advantage of it. You would be amazed.

Trade at a level you can mentally cope with.

Do not plunge with wide stop losses, maintain a discipline on your entries. If you look after the entries everything else will look after itself.

Take frequent breaks from trading, after a few days of torrid trading you can become stale. Sit out for a while and do some research. Take up golf it is a discipline game to train your emotions.

Continue to review a selection of markets, sometimes you become so involved with one you forget the others and it is amazing how many set ups you can miss.

Try and develop a mental picture of the traders you are doing combat with. Let your ego run wild, you are a winner because you follow rules and know why you are doing this. Don't cop any shit from anyone if you don't like someone TELL THEM SO. Makes you feel better anyway.

Keep current on all business news and make your own mind up.

Do all these things diligently and you will make a success.

In addition:

Do not trade when you are tired, been drinking too much, smoked some dope or what other vices you may have.

Do not trade when you have just had an argument with someone or you have personal emotional problems distracting you. This especially applies to children and wives.

Do not trade when you have anyone else in your office distracting you. Lock the door and tell them to piss off.

Never say to yourself I have to trade to pay the mortgage and put your self under pressure. If you can't relax and trade because of money pressures go and get a job and trade part time. When you get it right you should have enough money to relax.

Never ever be scared of taking a trade if you are doing so for the right reasons, if you are scared of the market the only reason is that you don't know what you are doing.

There are probably a 100 other things I could tell you but you will learn them for yourself as you progress.

The real point is tho is that if you can't become a profitable trader within two years you might as well forget the whole thing.

Every time you make a mistake WRITE IT DOWN and never repeat it. If you do and you may, WRITE IT DOWN on a notice board in your office, don't have an office? Don't trade.

Without the right mental attitude trading is difficult, don't trade on days when you don't have confidence in what you are doing.

Never ever say to yourself the market was cruel to you, if you do you will begin blaming the market and that will stop you executing freely. Anytime something goes wrong it has a reason behind it. Find out the reason and fix it.

There is a thing called MURPHY'S LAW, "If anything can go wrong it will". It is so true, your online data feed will go down, a truck will hit a light pole up the street and cause a power blackout, the battery in your cell phone will go flat or your relay station goes on the blink. Make sure you trade with stops for protection.

Epilogue

These final notes are my bible - mostly I seem to be repeating myself from previously written material, but the theme of my work and studies has not varied in the past 16 years, it has only become more refined as time passes by.

If you can grasp the heart of my approach you can make a success, it is up to you to understand. For, once you place your trade in the market, for whatever reason, you are the one responsible - no one else.

I wish everyone a success, there is enough money in the market for all of us, make no mistake about it. 90% of people trading commodity futures lose, every six months 60% of current accounts are closed and replaced by new comers. The longer you stay in this industry the easier it becomes.

Bryce T. Gilmore
December, 2001

TWAE - APPENDIX:

Contents:

1. Open Interest - Appendix to Chapter 13 **I-X**
COT 5th Oct.
Crop report 12th Oct.
Harvest progress 7th Oct.
Last year compared with this year.
Farmers advice.

2. Opening Price & Geometric Levels **XI-XIV**

3. Assorted Charts **XV**

4. Important Personal Note Pages

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5. Trading Mistakes I will never make again

I've left several pages for your own personal notes, be sure to keep a record of the important ones. From now on this book will be your personal trading bible. If it isn't then you are never going to make a trader.

Appendix 1.
Chapter 13 continued – Open Interest:

5th October 2001:

Chapter 13 on Open Interest was written on the 14th September 2001. Just to demonstrate the changes we can review what we are seeing today, it might help to drive the point home.

Soybeans - Chicago Board Of Trade

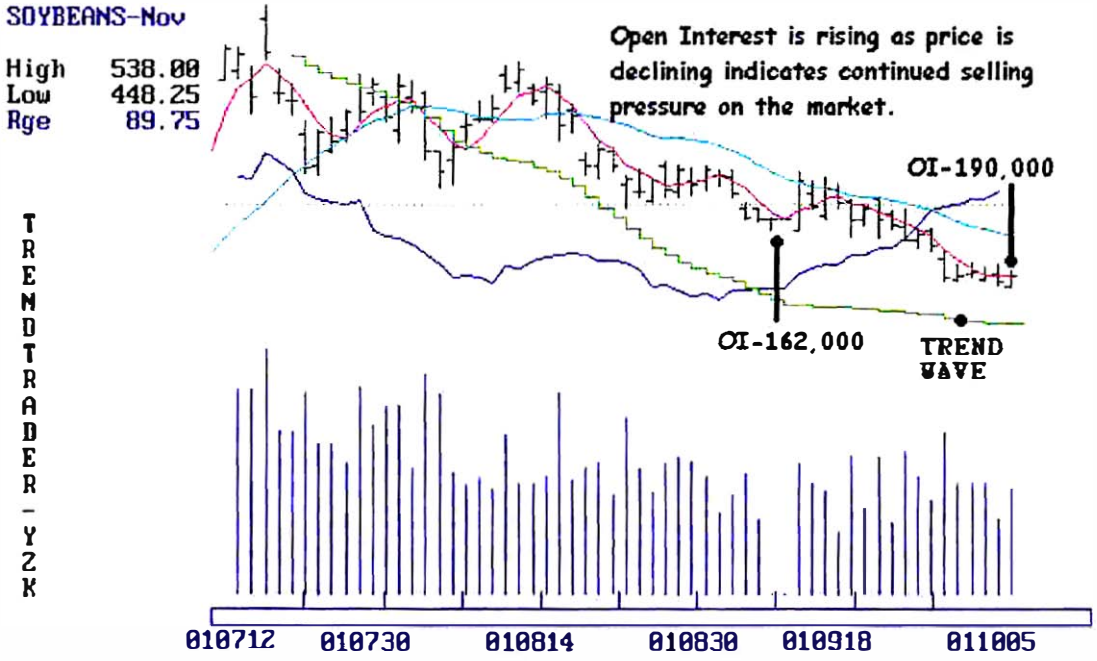
Reportable Positions As Of 10/02/01								
Non-Commercial			Commercial		Total		Nonreportable Positions	
Long	Short	Spreading	Long	Short	Long	Short	Long	Short
25,927	24,433	28,446	86,600	107,386	140,973	160,265	44,002	24,710
1,622	2,131	-88	10,923	8,737	12,457	10,780	-1,505	172

From 09/25/01 (Change In Open Interest: 10,952) Open Interest: 184,975

Figures from 10th September Open Interest 161,935

25,480	15,265	26,020	63,081	91,400	114,581	132,685	47,354	29,250
447	9168	2426	23519	15986	26392	27580	-3352	-4540

Non Commercials have been increasing shorts whereas the Commercials have been reducing net short positions.



Judging by the way the open interest is increasing while the market is trading sideways making slightly lower lows there are a lot of buyers just underneath the 450 level.

These must be the Commercials as they are the ones showing a positive increase in long positions versus short positions.

The Non-Commercials and speculators have shown a net increase in short positions of around 10,000 contracts.

Next week this market comes into a strong timing zone so it will be interesting to see if there is any short covering. If the shorts run for the door any rally would be explosive.

Presently we are in harvest time, which has been staggered due to a slow planting period earlier in the year. The condition of the crop is presumed to be normal. Prices normally decline during harvest time unless the crop is failing.

The next crop report date should be interesting.

Something to consider:

I haven't mentioned this to date but if you are trading close ranges it pays to know where the orders are coming from.

You can only get this information from the floor or a broker who is in touch with the floor. On electronic markets you can see it in the DEPTH of orders waiting for the price to reach them.

On the occasions that the COMMERCIALS and LARGE SPECULATORS place trades they do so in large quantities, i.e., they could place lots for 500 or a 1000 and put a roof or floor on the market.

If you can get this information it can give you an edge.

Reason is that if the BIG LOTS are filled and the market breaks through them the trend is strong.

If on the other hand the BIG LOTS hold the market back you can expect it to keep going away in that direction because it just hit a brick wall.

Novice traders placing orders have no idea about the market and how it works. Professional traders are in touch with what is going on.

That is why they make all the money.

There are a lot of things to consider in this business if you want to become a professional trader.

So as life goes on consider if you are prepared to get smart or get out.

My advice is if you don't like long hours, hard work and logic just keep this book on your bookshelf and go and play golf. It saves a lot of grief.

2001 - October 13th, Saturday.

I had to come back and add to this appendix because it is worth its weight in Gold to see what has transpired.

Since the 2nd Oct COT report the open interest has risen to over 191,000 and a crop report was due yesterday.

Throughout the week leading up to the report the bean prices moved sideways to down with a false mini break up on the Monday that lasted about 30 minutes. On report day beans gapped down on the open and stayed down all day.

Friday, 12th October 2001 – Soybean Report:

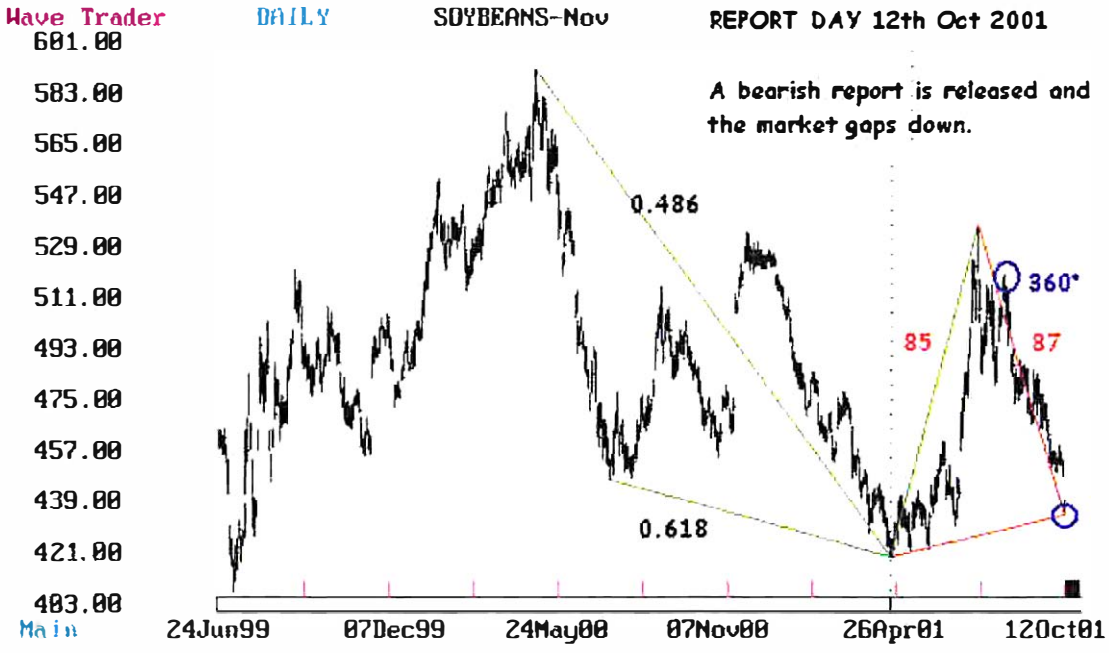
Crop report 12th October 2001-10-13

CHICAGO (AP) - Grain and soybean futures tumbled sharply Friday in early dealings on the Chicago Board of Trade after the government forecast larger-than-expected crops.

Corn lost about 2 1/2 percent of its value after the U.S. Department of Agriculture pegged the U.S. crop at 9.43 billion bushels - 192 million more than it forecast last month.

Market-watchers said the decline in prices might have been greater but for the fact the estimated crop still would come in 500 million bushels under last year's.

Soybeans took a similar hit after the USDA forecast called for a record-large crop of 2.97 billion bushels, exceeding any previous estimates. There was no evidence that crop stress, widely discussed in recent weeks, would hinder final yields.



The chart after yesterday's session; now all we have to do is identify the short's covering to indicate a reaction back up.

The more you stay informed the better off you will be.

And here are some numbers for Soybeans:

U.S. Soybeans and Products Supply and Use (Domestic Measure) 1/

Item	2000/2001 prev	2000/2001 Oct 12	2001/2002 prev	2001/2002 Oct 12
SOYBEANS		Million acres		
Area				
Planted	74.5	74.3	75.2	75.2
Harvested	72.7	72.4	74.1	74.1
		Bushels		
Yield per harvested acre	38.1	38.1	38.2	39.2
		Million bushels		
Beginning stocks	290	290	240	248
Production	2,770	2,758	2,834	2,907
Imports	3	4	4	3
Supply, total	3,063	3,052	3,078	3,158
Crushings	1,635	1,641	1,660	1,660
Exports	1,000	1,000	990	980
Seed	91	91	91	91
Residual	97 3/	71	82	82
Use, total	2,823	2,804	2,823	2,813
Ending stocks	240	248	255	345
Avg farm prc ($/bu) 2	4.55	4.55	4.40/5.40	3.90/4.70

Note: Reliability calculations at end of report. 1/ Marketing year Beginning September 1 for soybeans.

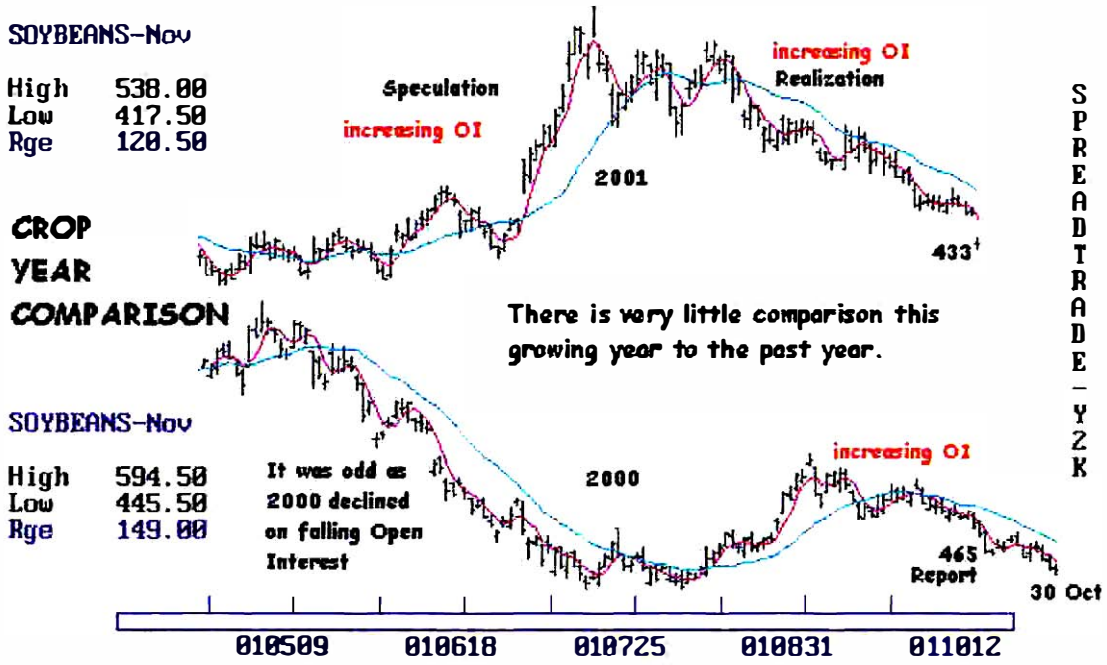
2/ Prices: soybeans, marketing year weighted average price received by farmers;
End

Futures World News, Washington DC - Tel: (202)756-1976

FSN2453 OAC GRAIN USDA
2001-10-12 12:48:15 UTC

Report Date 2000 / 2001

Last year when the crop report was released the low on the day was $4.65 for a crop of 2,758mb = $12.82 billion. This year we have a crop of 2,907mb at $4.33 = $12.59 billion, so it is fairly close. It might be worth remembering these figures for next year.



Harvest: 7th Oct 2001

	Week Ending			1996-
Soybeans: Percent Harvested, Selected States 1/	State: Oct 7, 2001	Sep 30, 2001	Oct 7, 2000	2000 Avg.

Harvest: 7th Oct 2001

	Week Ending			1996-
Soybeans: Percent Harvested, Selected States 1/	State: Oct 7, 2001	Sep 30, 2001	Oct 7, 2000	2000 Avg.

Interesting Observation in 2001 report:

The press release says the record crop announced is 2.97 billion bushels, the CROP REPORT say 2,907 million or 2.907 billion. The difference is 70 million bushels! That's a lot! The estimate of yield went up to 39.2 bushels an acre on a planting of 75.2 million acres so that is 2.95 billion bushels, the (est.) harvest figure is 74.1 million acres right now. Crop yield can vary from 30 to 80 bushels an acre. A farmer in North Dakota I know just reported 55 bl/acre average and another from South Central Nebraska reported 65 bl/acre average. Both said they could not explain the increases in yield this year as there was nothing exceptionally different to last year.

According to the harvest figures on 7th October the crop is less than 50% harvested and some areas in harvest just had 6 inches of rain. The figure of 2.97 billion bushels may not even be close.

The USDA figures will be revised in the next report in a month and could change significantly or stay the same.

Farmers Dilemma:

I know a farmer who has just finished harvest and if he takes the LDP and sells his harvest at the current price at his elevator he would get about $5.10 a bushel. Now it costs about that much to grow on a yield of 45 bushels/acre. If your average yield is 39.2 as per the USDA report you are losing money. If you have a yield higher than 45 bl/acre then you are making money.

With the LDP at $1.24 and the cash at $3.88 (basis is $0.41 to November futures) he can take the LDP and store the harvest till he gets a better price if he likes. The basis should narrow as we get past harvest time. Right now the contract is on it's lows and the bottom is still in doubt!

What does he do?

Each year when prices are low the farmer has the same problem, if he had bought November $5.00 puts in July for 20 cents when he had the chance he could take the LDP and cash his beans, close the puts and buy some calls and still be a mile ahead during harvest time. So long as he took crop insurance at the beginning of the year he would be safe.

So why do farmers go and buy calls at the beginning of the season? Who is advising them to bet against themselves?

Here's what I would do if I were a farmer.

1. **Estimate how many acres I was planting for the year.**
2. **Estimate my average yield per acre over the last 10 years.**
3. **Arrive at an estimate for future production.**
4. **Calculate the average cost per bushel for estimated production.**
5. **Take out crop insurance for the estimate.**
6. **If the November futures price rose 50 cents above the loan rate, buy puts at a strike 30 cents above the loan rate to cover half the harvest estimate.**
7. **If the November price rose $1.00 above the loan rate I would buy more puts at a strike 60 cents above the loan rate because they would be cheap.**
8. **If for some reason the futures went through the roof I would buy more puts at levels at least 50 cents out of the money where they are cheaply priced.**
9. **Now no matter what happens I am covered unless the crop completely fails and then I have the insurance to break square on.**

If for some reason early in the growing season the crop looks like it will fail, then and only then would I buy some way out of the money call options for extra insurance.

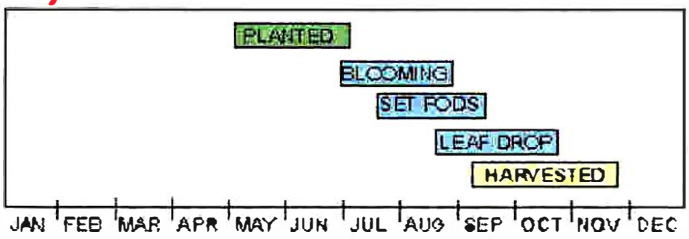
If you have a plan you can guarantee a better return, if you have no plan then you don't know where you will be come harvest time.

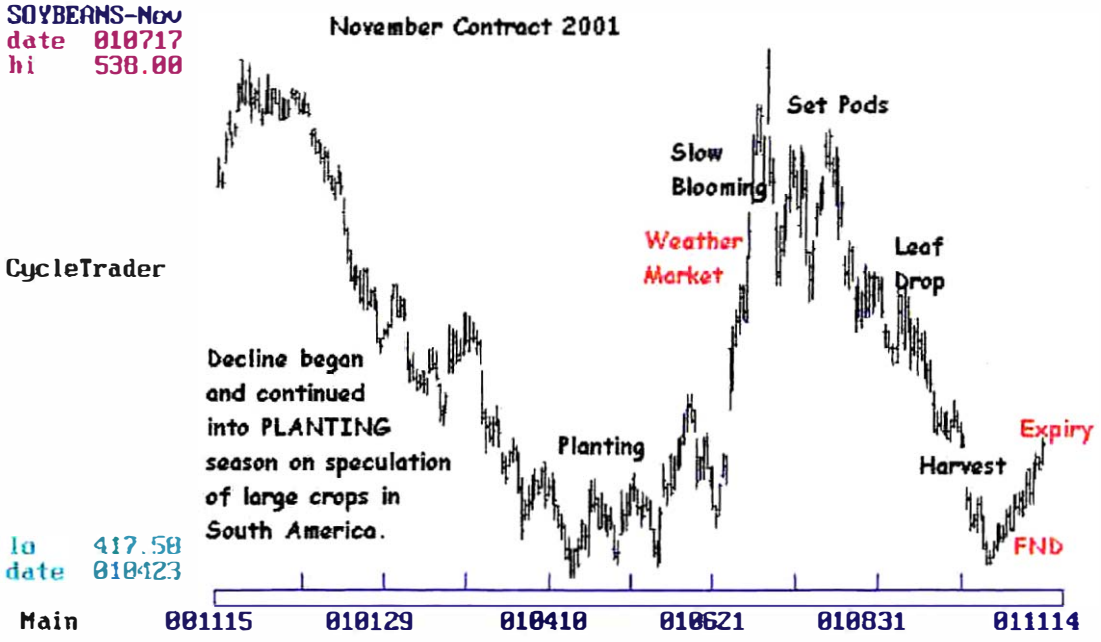
.....

USDA/NASS Crop Progress Timetables

Approximate Dates Tables are Released

Soybeans

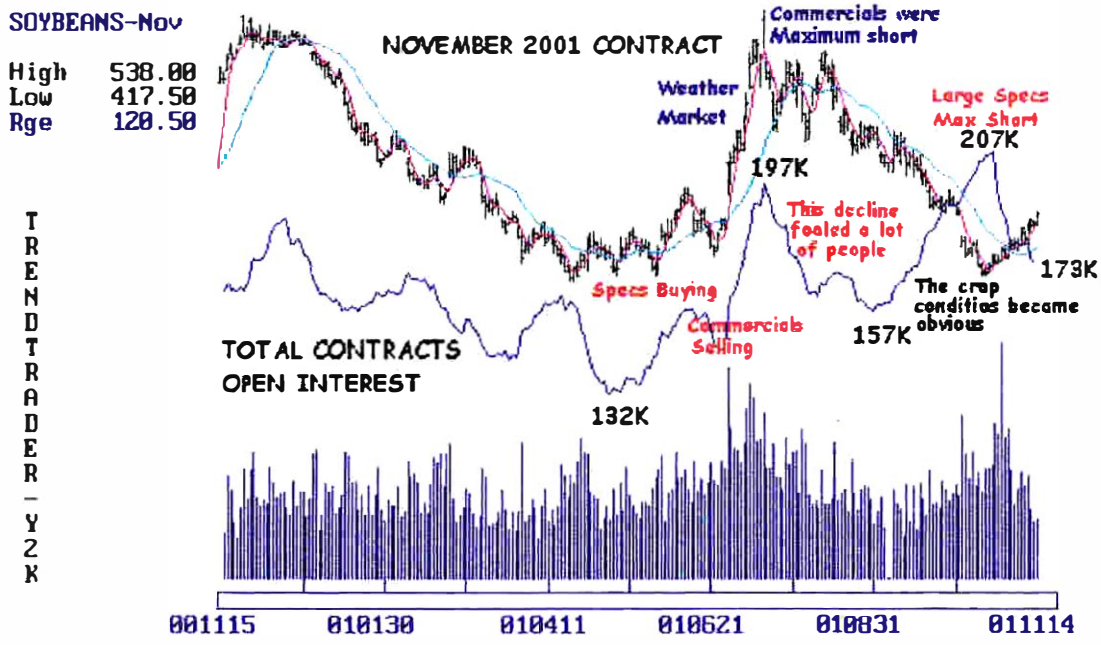




I've added this page for the 2nd printing just to give you an idea what happened this year. Every year will never be the same but in general it gives an idea of the phases this market reacts to in terms of the fundamentals and the USDA reports that hit the market.

Once all the facts were out in the open regarding the harvest, the market began to rally from the 22nd October into it's expiry date.

This was exacerbated by the last round of short covering by the commercials. The commercials fed the buy side on the way down.



Soybeans - Chicago Board Of Trade
Reportable Positions As Of 11/06/01

Non-Commercial			Commercial		Total		Nonreportable Positions	
Long	Short	Spreading	Long	Short	Long	Short	Long	Short
19,049	34,722	20,842	86,948	87,748	126,839	143,312	51,865	35,392
-3,895	5,654	-6,050	397	-9,060	-9,548	-9,456	-337	-429

From 10/30/01 (Change In Open Interest: -9,885) Open Interest: 178,704

If you inspect the 2nd Oct report on page 1 of this Appendix you will see the Commercials were net short 21000 contracts, today's report shows they are only 800 net short. Commercials have been closing shorts before the contract expiry and not reinstating them in the future contract months right now.

Large Specs were net long 1500, today the Large specs are net short 15,500.
Small specs were net long 28,000, today they not long 16,500.

The market bottomed on Oct 22 and the Commercials began to cover, the open interest had risen to 207,000 at the low point. And has now dropped to 178,704

The closing price of November Beans on October 5th was 452^2, the crop report a week later resulted in the market gapping down, large specs sold and the commercials sat tight, someone bought because OI rose from 191k to 207k, must have been the bargain hunting public.

The closing price on 6th November was 432 and open interest had dropped nearly 30,000 contracts since two days after the low. So you can see who is the smarter of the bunch. It is now the 23rd November and the January Beans have traded back up to 454. The Commercials have been adding new short positions while the large specs have been closing shorts. Open Interest has now fallen to 173K.

Important Message:

Of course the moral to all of this is to make sure you are aware of the open interest changes in the contracts you trade.

Always be aware of where the SHORT INTEREST is coming from.

Watch how the market moves when the changes take place.

If anyone has any insider information it is most certainly going to be from the COMMERCIAL's side. Watch them carefully.

Appendix: 2 - Advanced Day Trading

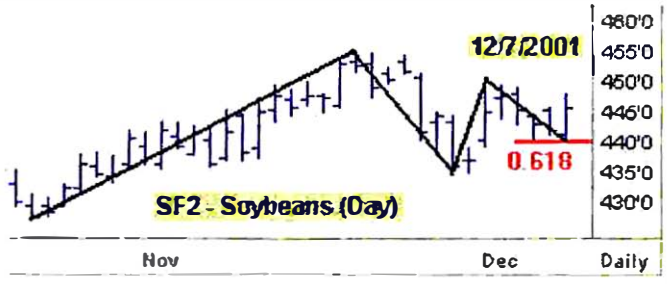
Opening Price and Geometric Levels:

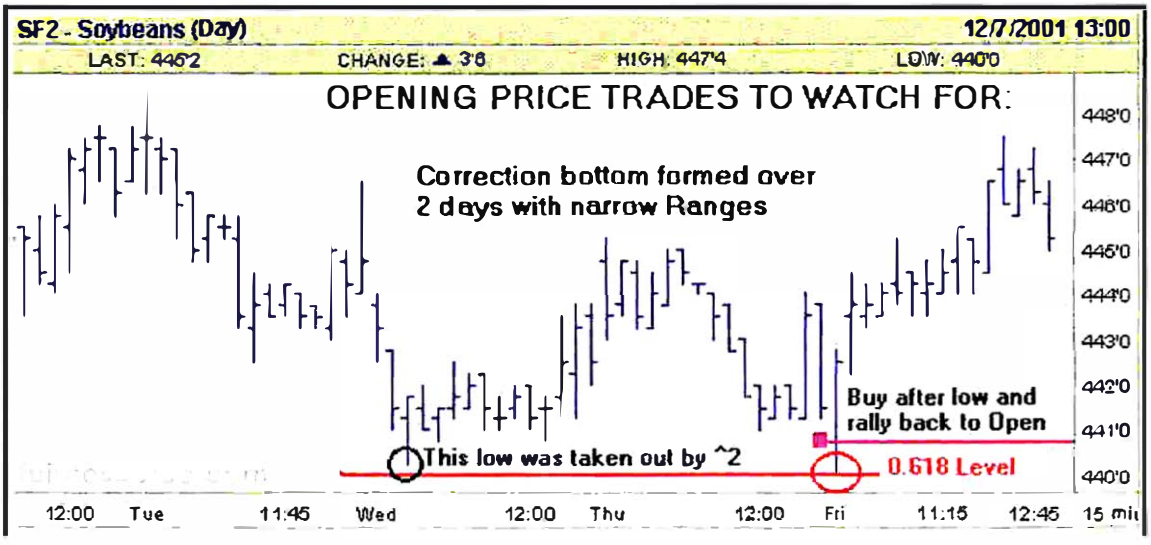
I said earlier in this book these occasions occur infrequently and really didn't list any examples, so here are a couple to take note of.

DOUBLE BOTTOM ON A GEOMETRIC LEVEL:

When the opening price starts the day very close to a known geometric support level it gives the potential opportunity to trade with a stop and reverse.

On any given day there is a 50% chance the opening price will be the High or Low for the day.

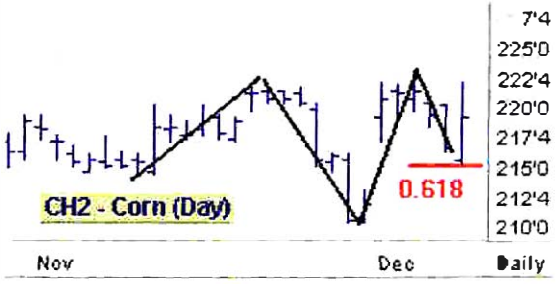


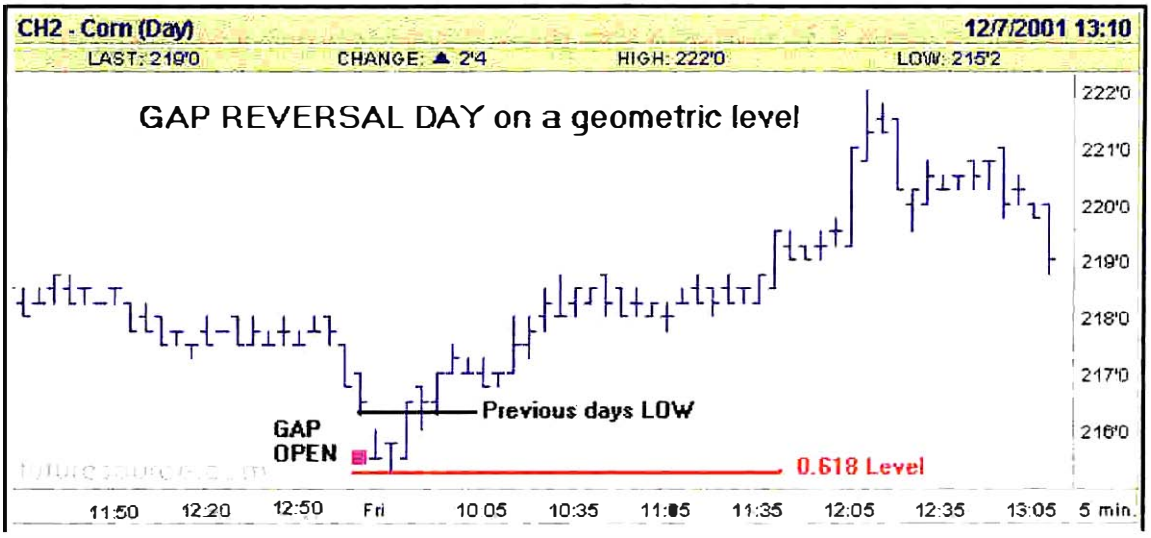


In this case the market had been forming a bottom pattern over 2 days with the 2 day low at 440^2, the 0.618 retracement level was 440. On Friday 7th, December 2001 the January Soybeans opened at 441, the opening range in the first 5 minutes was 441^5 to 440.

GAP REVERSAL DAY ON A GEOMETRIC LEVEL:

Usually the rally or the decline in progress is a correction to a larger degree move.





The same opportunities could arise if the market was making a high in a correction and you were looking for a reversal.

NOTES:

You need to be aware of all the MAJOR GEOMETRIC LEVELS close at hand before the market opens, i.e., 0.500, 0.618, 0.707 for minor degree ranges. If you use a 1 minute live feed chart you can recognize the support or resistance very quickly and act with a very close stop loss.

If the geometric level fails to provide rejection then you have a good reason to stop and reverse your position and go with the flow.

Everything in trading is about flexibility; if you can't be flexible you are not a trader.

GAP OPENING IN THE DIRECTION OF THE TREND:

Successful trades can normally be established if they occur after some consolidation phase, i.e., the market has been held back for several days at a level where it forms a series of minor tops or bottoms. The chart may well have had a small correction prior to retesting these prior tops or bottoms. When the prior days close is outside the prior resistance or support zone, i.e., the market has made a new high close or low close outside the prior consolidation pattern a GAP OPENING is more likely and the trend will normally run as the market consumes the stop orders nested there.

A tight stop needs to be placed just outside the GAP in case the market does not run and comes back to fill the GAP. The stop should be no more than 1 tick inside the prior days high or low whichever is the extreme point.

THE PRIOR DAYS CLOSING PRICE:

The position of the market in relationship to the OPEN and the PRIOR DAYS CLOSE is also another good indication of the strength in trend.

The previous days CLOSE can often be seen as RESISTANCE or SUPPORT.

Knowing where you are in relationship to market BALANCE POINT levels is extremely important to your success as a trader. The OPENING PRICE and the PRIOR DAYS CLOSE are the most recent levels that supported MARKET FACILITATION. Any strong trend will move away from these points in a hurry.

SUCCESS IN THIS BUSINESS DEPENDS ON YOU BEING ALERT:

Anyone who thinks they don't have to watch the market is a fool. I don't want to tell position traders to do what I do but if you want to be a real trader you need to watch the market, i.e., whenever you have a position.

Things can change so fast on an intra day basis and if you are not there the market rules you, not the other way around as many seem to think. The market is more like a mistress not a slave.

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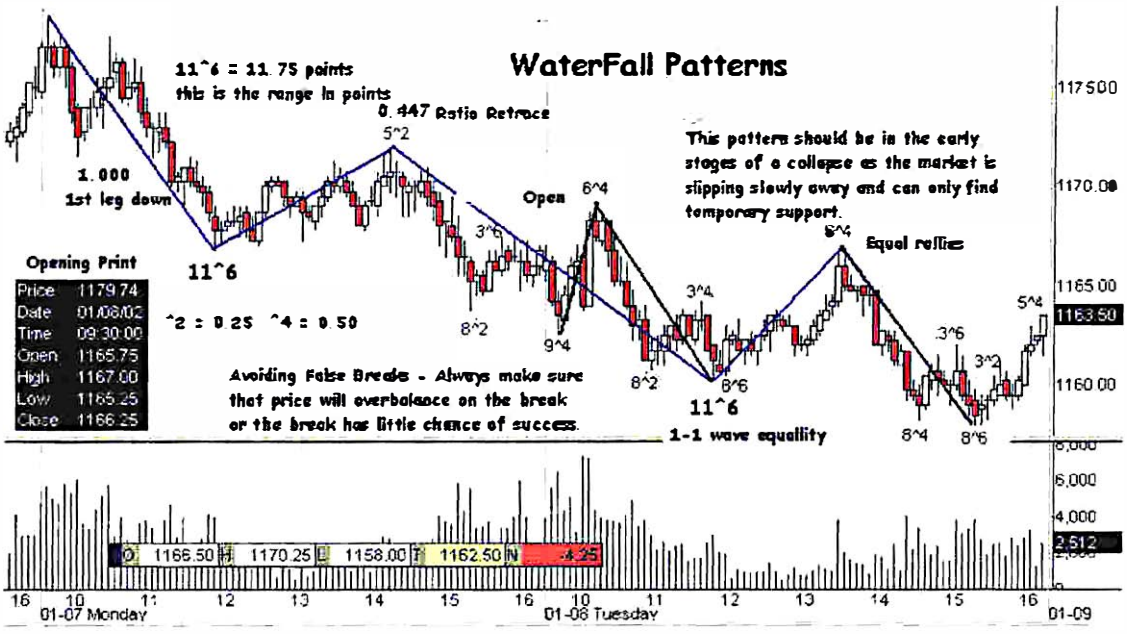
Appendix 3 – Assorted Charting Patterns

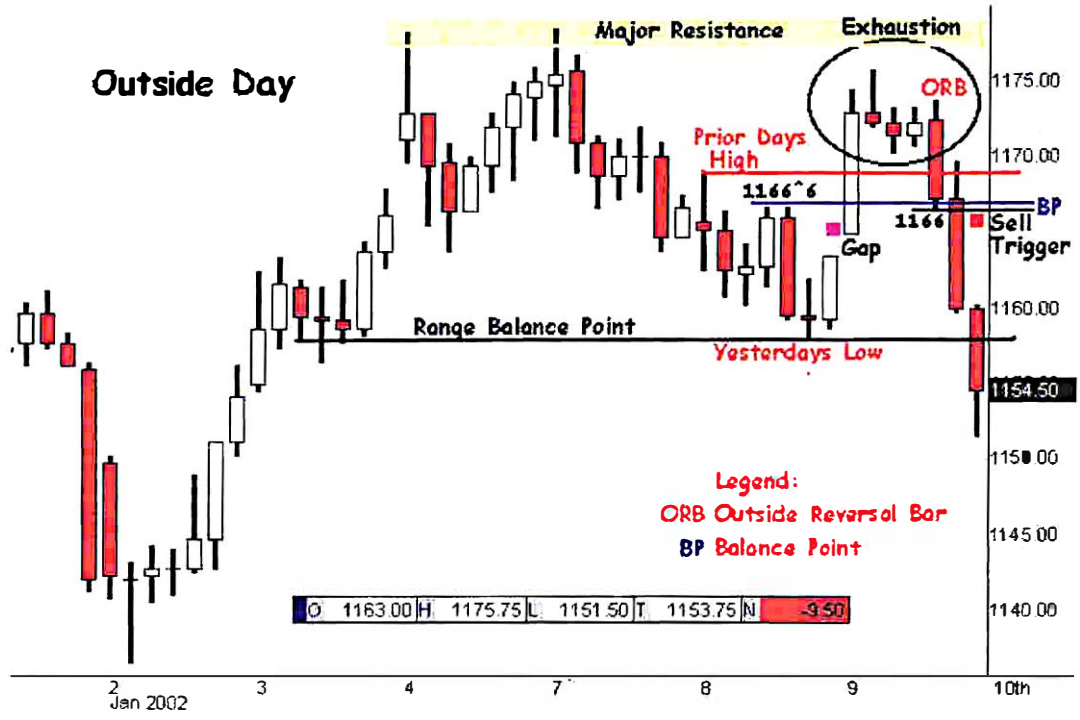
Patterns:

The following patterns have been added for your education, I am not writing any comments in detail but if you study the charts the information on them will be very informative.

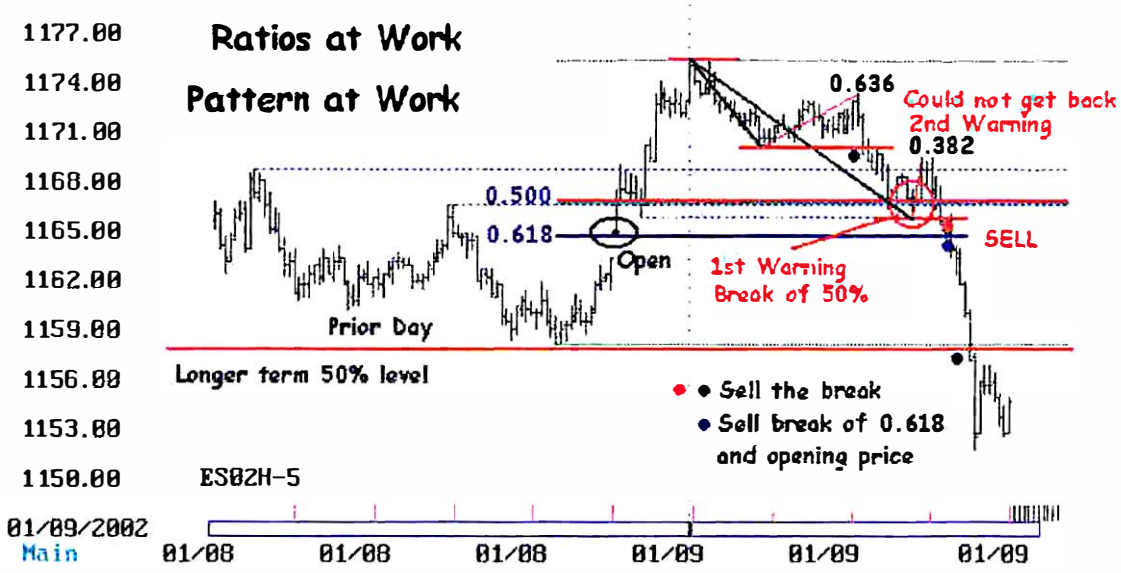

WaterFall Patterns
11^6 = 11.75 points
this is the range in points
0.447 Ratio Retrace
1.000
1st leg down
11^6
^2 = 0.25 ^4 = 0.50
Opening Print
Price 1179.74
Date 01/08/02
Time 09:30:00
Open 1165.75
High 1167.00
Low 1165.25
Close 1166.25
Avoiding False Breaks - Always make sure that price will overbalance on the break or the break has little chance of success.
Open
This pattern should be in the early stages of a collapse as the market is slipping slowly away and can only find temporary support.
Equal rallies
11^6
1-1 wave equality
01-07 Monday
01-08 Tuesday
01-09

This is what went before.....

Next Day:

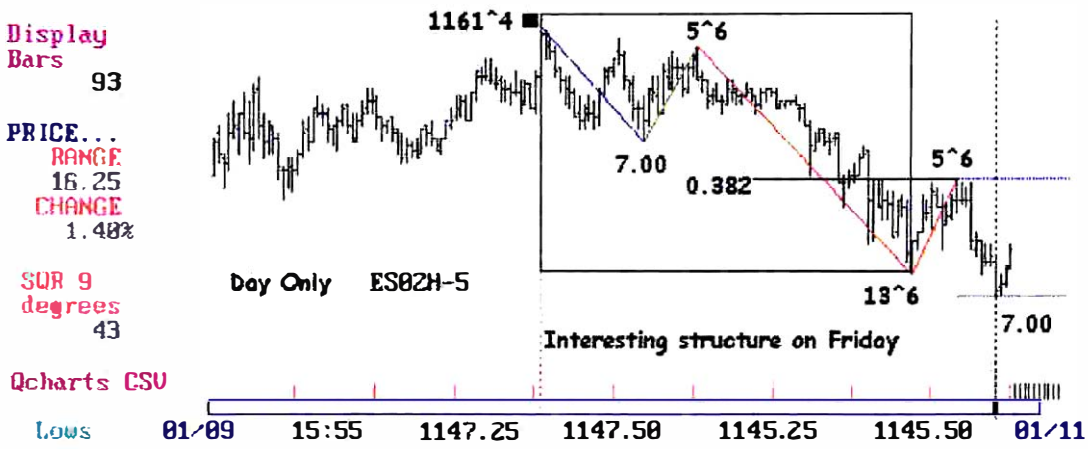


The early morning rally created some confusion for the bears from yesterday. Nevertheless the volume declined significantly after the high for today indicating lack of momentum, the pattern began to confirm. The last little retracement 0.382 prior to the wash out was a classic wave 4 ratio, the break of the Balance Point and then the open at the 0.618 had them running for the gate.



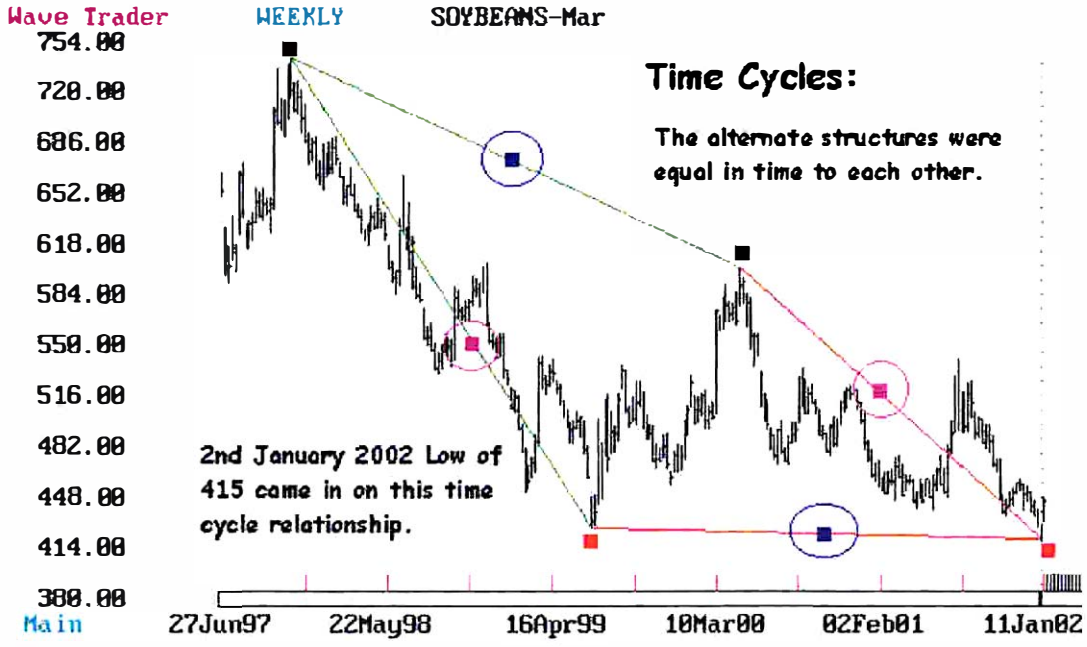
Power of ranges:

Keeping track of range measurements will alert you to wave structure.



The way market ranges inter-twine as the market moves along would amaze the unsuspecting novice.

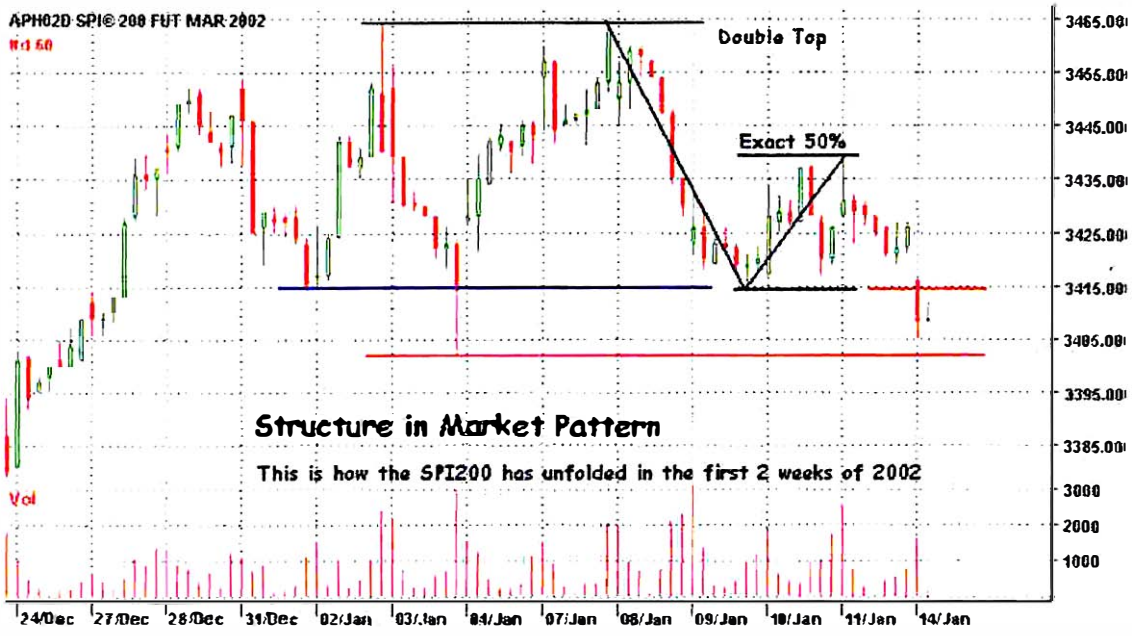
Time Cycles:



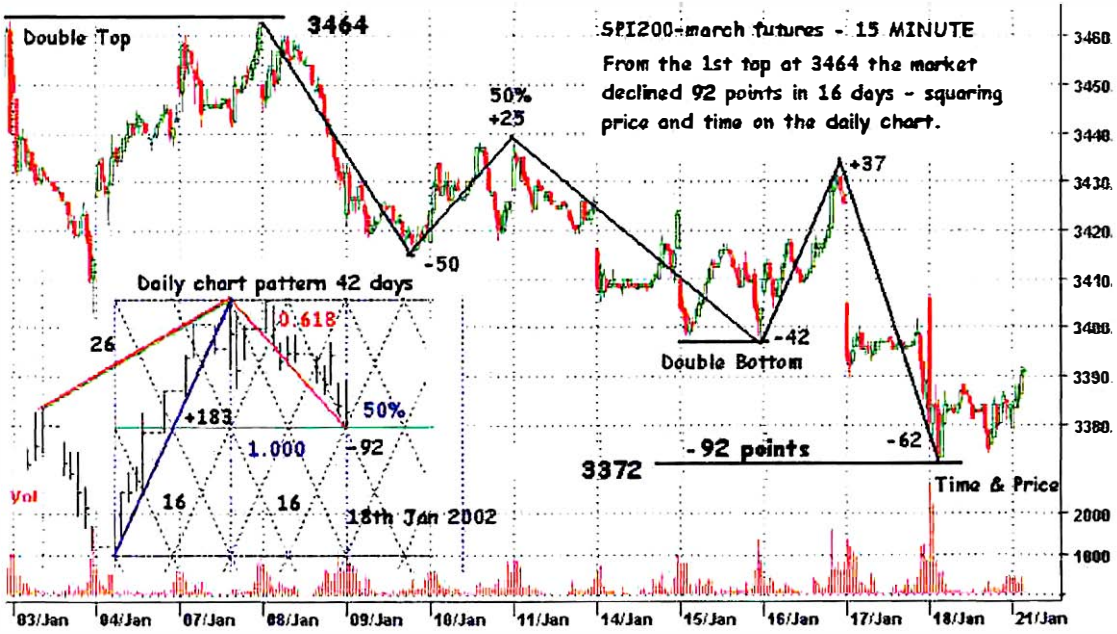
The bean market reversed trend, at least in the minor degree, on this time cycle relationship about a week ago.

Interesting Pattern Spi200:

It will be interesting to see the final outcome of this pattern.

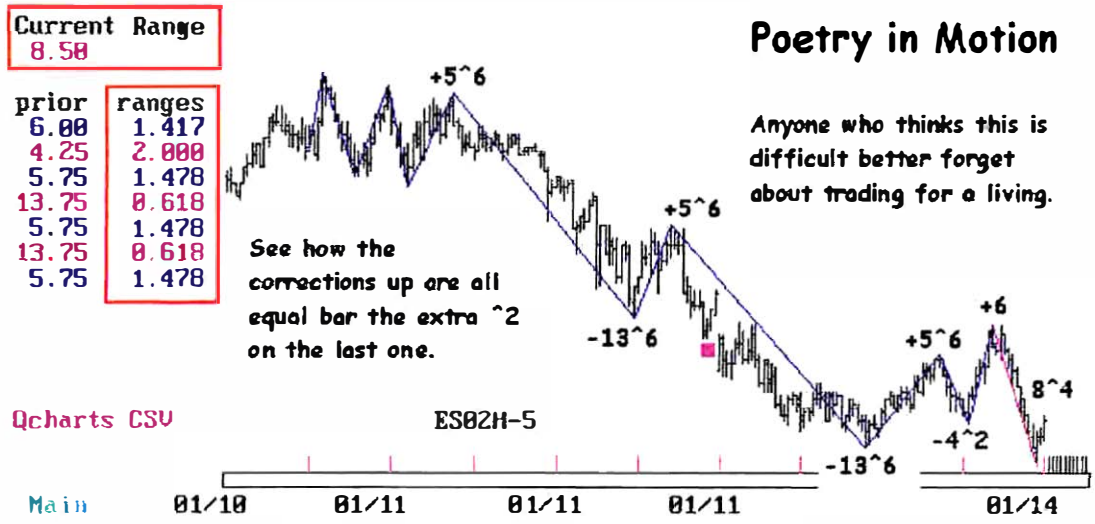


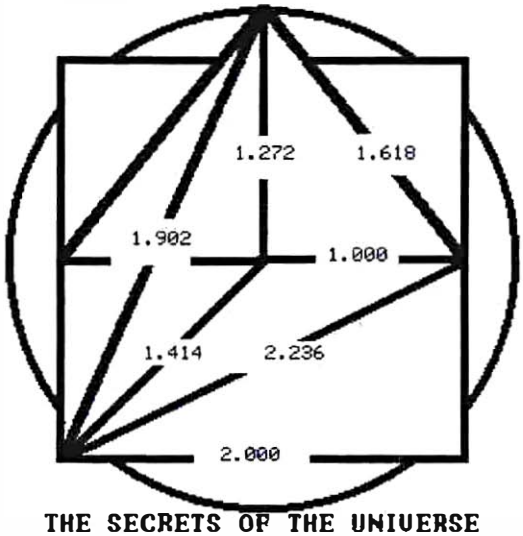
INTERIM OUTCOME:



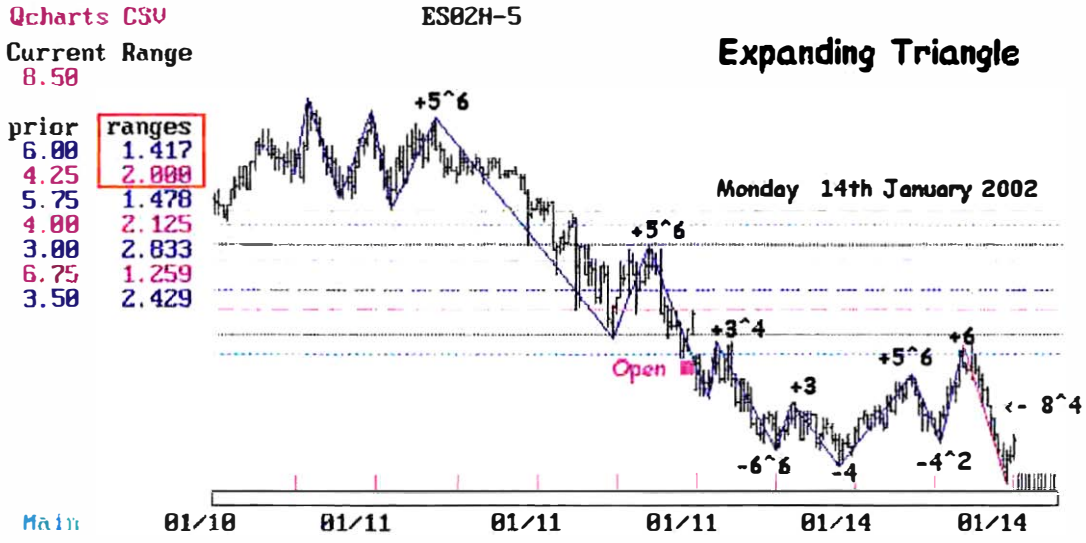
Nothing is confirmed just yet but a tradable rally is in progress.

More interesting geometry:

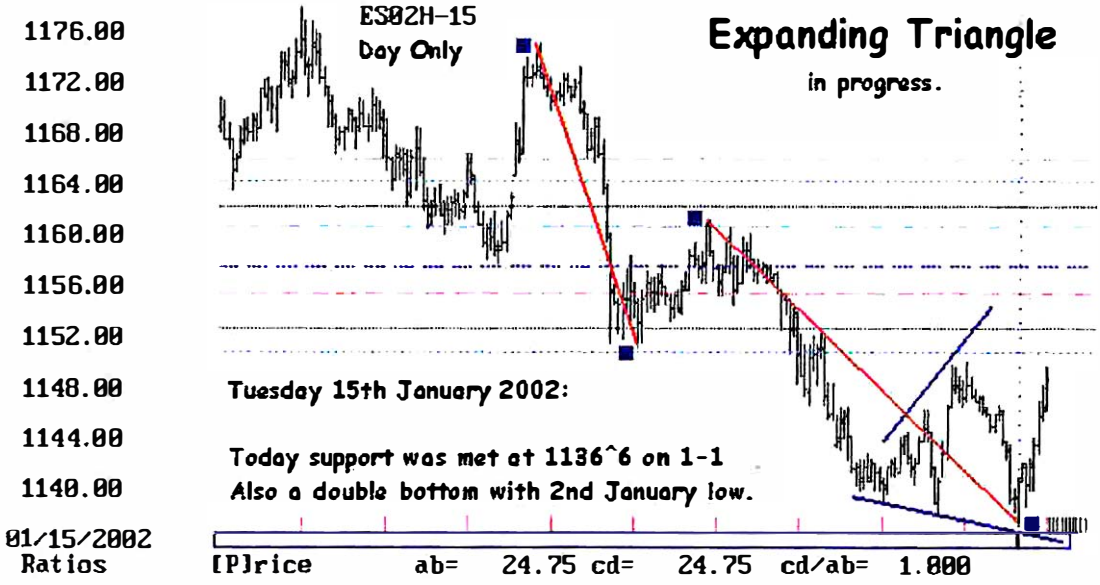




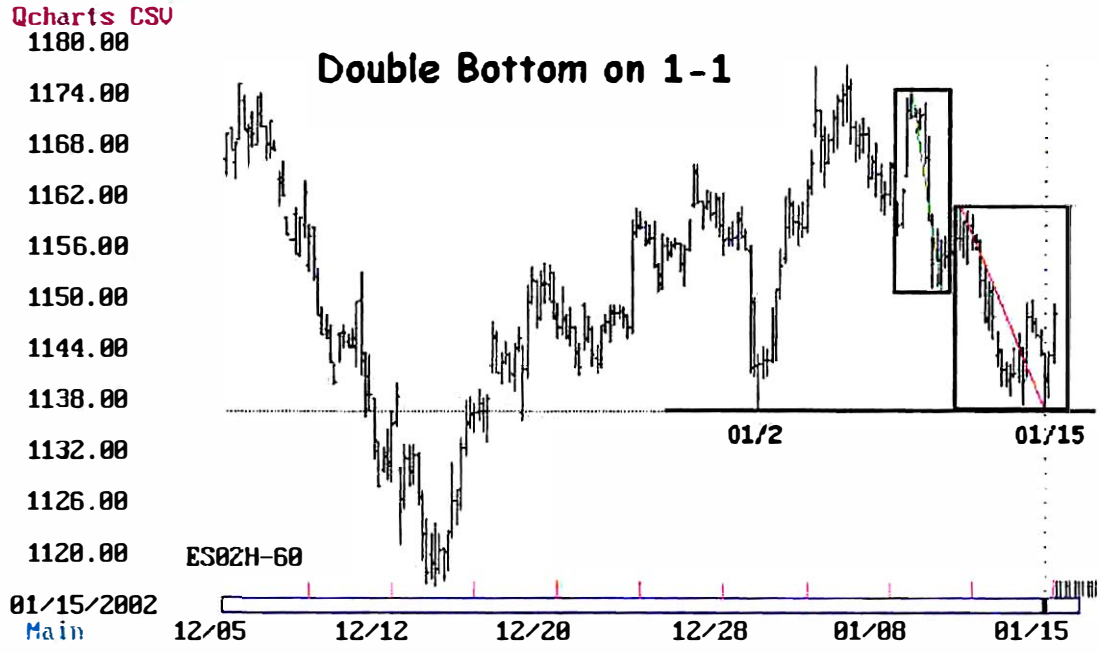
THE SECRETS OF THE UNIVERSE



Market reaches major support zone:



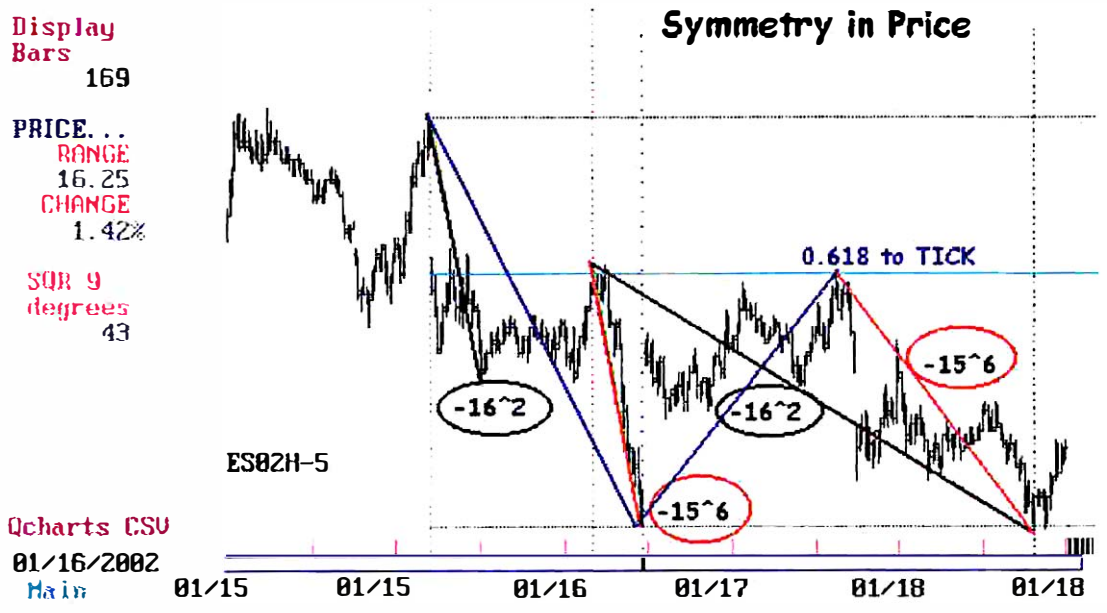
Low today now becomes the MAKE OR BREAK support for this market.



The MOB support was obvious prior to the low today if you had done your homework. I published this the day before in Club144.

Market breaks previous support:

Each day is a new day for trading but if you keep a flexible perspective you will see the KEY REVERSAL POINTS and you can make profitable trades along the way.



Look at the chart above this one the low on 01/16 just missed the 1-1 by 2 Ticks, now today it made the target perfectly, in between it made a 0.618 retracement. It is only a matter of staying awake and these relationships become obvious to you.

Food for thought:

I think in this book I have given you more than enough food for thought.

If you cannot see it I am far from the guilty party.

All of the things that I have outlined are a bit like playing chess with the market but that is what it is all about.

I can't see any reason for continuing this appendix because I have shown you more than what anyone needs to make a successful living from the markets.

Now all you have to do is execute at the right time with close stops to protect you from the occasional mistakes and take what you can get when you are right.

No one can do it but you.

I wish you all the best and if it is not working I suggest you re-read this book cover to cover again and again until it does. It is out of my control now.

The trading principles I have explained are ones that work, if you find you cannot make them work for you then all I can say is that you can never be a trader until you identify where your own personality is in regards to the market.

I have recently realised that I am an enigma in some ways because I am so cut-throat about what I do it even extends into my personal life. I can't change my ways or my belief system in the future as these are now part of my makeup. I have had two divorces on my way to this level and I wouldn't change a minute of it. Just this week I have had my 15 going on 16 year old daughter staying with me and she is out of control in the normal sense. I have tried to give her some ground rules and she just rebels as she thinks she knows better. Well she will learn as we all did, I thought my father was a know nothing when I was 16 and I couldn't work out how he had learnt so much by the time I was 25.

But at the end of it I was still arguing with him up until the last year of his life and then I spoke to him at least once a week on Sunday's for half an hour. Now I make sure my Mother has everything she wants in life, hope this book helps you to get the same for yourselves.

Appendix 4:

Have you ever thought about where the market get its liquidity?

Well it is like this:-

The market is a bunch of buyers and sellers working against each other with one view in mind, and that is to get the best price at the time.

Buyers and sellers have all sorts of reasons for taking trades.

1. **They either know that the market is value or it isn't.**
2. **They have fixed views and keep trading with that view.**
3. **They have systems that give them signals and they buy or sell when they get the signals.**
4. **They are completely mad and just buy or sell for any reason.**

The real issue here is this:- The market has to have liquidity to facilitate trade.

Trade is facilitated for a number of reasons, i.e., there are buyers or sellers available to meet each other in the market place.

If they don't then the market just heads off in one direction or the other until it finds a place where it can facilitate trade.

Every time a market reaches a level it will facilitate trade it finds support or resistance. When this happens short term traders who have profit in hand quit and cause a reaction. On occasions they will reverse back the other way.

Then there is the situation that is becoming popular where the "guns" go after the system traders. We know where they have their orders and if they lie in the wrong place, say where natural support exists and they will be going short and we all buy their sells till they are exhausted, then they have to capitulate and just give us the money. If there are more of them than us we have to bail rather fast or go with them and help the move along.

These are the reasons the market backs and fills all the time.

Nothing will ever change.

Here's a thread from my Club144 site today:

You don't really know how I feel about forecasters - you may think you do but let me say this:-

Every good trade you will ever have in your life comes out of planning and correct execution that you may give up some of the move to get a confirmation is of no consequence. If you miss something it means nothing. It is what you get that counts.

If you want to be successful you need patience, you need to execute when everything is in your favour.

Sure as eggs you don't need to be a gunslinger and pull the trigger at everything that comes along.

Doing that is tiresome and won't give you the strength to follow through when you actually get a runner.

We have seen Steve pick pivots and trade some of them for virtually nothing in the past week or so. No offence meant here Steve but I need to use you as an example right now.

You have to have patience in this business and it is hard to get it when you become a sharp shooter taking on every little thing you see.

I am backing off all this minute by minute stuff we went through the past 3 weeks because it does not help me so I figure it can't help anyone else.

When I am trading in future I will let you know when I am ready.

BBG

Bryce Gilmore wrote:

If you cannot equate trading to real life then you shouldn't be in the market. Think of a reason all the time why you should take a trade - if you can't find a good reason don't take the trade.

The market will always be there.

BBG